

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

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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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2010



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

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2010**

<u>Board Members</u>	<u>Term Expires</u>
Jane Brandt	April 2010
Solveig Corbin	May 2011
Larry Flaskerud	May 2012
Patti Gaalaas	April 2010
Michael Garry	April 2010
Lisa Jane	May 2012
George Jelatis - Chair	May 2011
Betty Jones - Treasurer	May 2011
Kent Knopp-Schwyn - Vice Chair	May 2012
Chuck Kundschie - Secretary	May 2012
Ron Leurquin*	May 2011
Cheryl Luger	May 2012
Ron Perry	May 2012
Matt Pettis - Vice Chair	April 2010
Marian Streitz	May 2012
Richard Streitz	April 2010
Trish Shilling	May 2011
Amy Tatarek	May 2011
Linda Wogstad*	May 2012
<u>Executive Director</u>	
Rita Ulrich	Indefinite

*Resigned

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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
Nokomis East Neighborhood Association

We have audited the statement of financial position of the Nokomis East Neighborhood Association (NENA) (a nonprofit corporation) as of December 31, 2010, 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 NENA'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 NENA as of December 31, 2010, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the NENA's financial statements as a whole. The supplementary information, which is the Schedule of NRP Activity, is presented for purposes of additional analysis and is not a required part of the NENA's financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 28, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

FINANCIAL STATEMENTS

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010**

Assets

Current assets

Cash	\$ 5,295
Grants receivable	35,369
Prepaid items	<u>2,440</u>

Total current assets **\$ 43,104**

Property and equipment

Property and equipment net of depreciation	<u>966</u>
--	------------

Total Assets **\$ 44,070**

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 8,543
Deferred revenue	<u>10,000</u>

Total Liabilities **\$ 18,543**

Net Assets

Temporarily restricted	\$ 227
Unrestricted	<u>25,300</u>

Total Net Assets **\$ 25,527**

Total Liabilities and Net Assets **\$ 44,070**

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Minneapolis Community Planning and Economic Development Department (CPED)	\$ 2,000	\$ -	\$ 2,000
Neighborhood Revitalization Program (NRP)	170,989	-	170,989
University of Minnesota			
Center for Urban and Regional Affairs Grant (CURA)	7,600	-	7,600
Other contributions	11,449	-	11,449
	\$ 192,038	\$ -	\$ 192,038
Total public support			
Other revenue			
Miscellaneous	4,093	-	4,093
	\$ 196,131	\$ -	\$ 196,131
Total Public Support and Other Revenue			
Expenses			
Program services			
CPED	\$ 2,000	\$ -	\$ 2,000
NRP	171,039	-	171,039
University of Minnesota CURA	7,622	-	7,622
	\$ 180,661	\$ -	\$ 180,661
Total program services			
Support services			
Management and general	13,081	-	13,081
	\$ 193,742	\$ -	\$ 193,742
Total Expenses			
Increase (Decrease) in Net Assets	\$ 2,389	\$ -	\$ 2,389
Net Assets - January 1	22,911	227	23,138
Net Assets - December 31	\$ 25,300	\$ 227	\$ 25,527

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Expenses</u>	<u>CPED</u>	<u>NRP</u>	<u>University of Minnesota CURA</u>	<u>Management and General</u>	<u>Total</u>
Advertising	\$ 2,000	\$ 2,636	\$ 254	\$ -	\$ 4,890
Artwork	-	24	-	-	24
Bank fees	-	-	-	16	16
Consulting	-	2,000	-	5,000	7,000
Depreciation	-	-	-	526	526
Equipment rental	-	181	-	-	181
Food and beverages	-	-	-	1,095	1,095
Grants to others	-	5,043	-	-	5,043
Insurance	-	2,299	-	-	2,299
Internet	-	1,364	-	-	1,364
Membership	-	75	-	-	75
Mileage and parking	-	165	-	-	165
Miscellaneous	-	702	-	521	1,223
Newsletter labeling	-	1,606	-	-	1,606
Office supplies	-	1,520	-	-	1,520
Payroll					
Salaries	-	95,816	6,050	-	101,866
Taxes	-	7,057	439	-	7,496
Benefits	-	13,781	-	-	13,781
Performance fees	-	930	-	-	930
Photocopies	-	2,729	-	-	2,729
Postage	-	190	-	-	190
Printing	-	543	-	-	543
Professional fees	-	17,500	-	-	17,500
Project supplies	-	2,131	879	3,905	6,915
Rent	-	10,615	-	1,485	12,100
Software	-	166	-	142	308
Telephone	-	1,193	-	271	1,464
Utilities	-	166	-	-	166
Volunteer recognition	-	607	-	-	607
Web page	-	-	-	120	120
Total Expenses	\$ 2,000	\$ 171,039	\$ 7,622	\$ 13,081	\$ 193,742

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Cash Flows From Operating Activities	
Increase (Decrease) in net assets	<u>\$ 2,389</u>
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities	
Depreciation	\$ 526
(Increase) decrease in grants receivable	13,726
(Increase) decrease in prepaid items	(908)
Increase (decrease) in accounts payable	(8,844)
Increase (decrease) in deferred revenue	<u>(18,625)</u>
Total adjustments	<u>\$ (14,125)</u>
Net cash provided by (used in) operating activities	<u>\$ (11,736)</u>
Cash Flows From Investing Activities	
Purchase of equipment	<u>(899)</u>
Net Increase (Decrease) in Cash	<u>\$ (12,635)</u>
Cash - January 1	<u>17,930</u>
Cash - December 31	<u><u>\$ 5,295</u></u>

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Summary of Significant Accounting Policies

A. Organization

The Nokomis East Neighborhood Association (NENA) was formed to encourage neighborhood communication and citizen participation; to review programs offered by the City of Minneapolis as these programs affect the Nokomis East Neighborhood; to arrange and conduct neighborhood meetings, to study and review all proposals of a commercial or residential nature and make recommendations to the appropriate governmental and private entities; to promote neighborhood improvement and revitalization and to act as a contact between the City of Minneapolis in general and the NENA residents; and to see that the character of the neighborhood is maintained. The area of the Nokomis East Neighborhood is composed of the Keewaydin, Minnehaha, Morris Park, and Wenonah neighborhoods, and is bounded by Minnehaha Parkway on the north; Minnehaha Avenue on the east, including Valley View Road and Hiawatha Lane; Cedar Avenue on the west; and the southern boundary of the City of Minneapolis.

B. Board of Directors and Officers

The NENA's Board of Directors consists of 15 members, of which three are selected from each of the four neighborhoods, and three are chosen at large. The Directors are elected at the annual meeting in March for two-year terms. To ensure some continuity in membership, the terms of neighborhood representatives are staggered with terms of at-large and alternate members. Vacancies on the Board of Directors are filled by appointment by the NENA Board of Directors until the following annual meeting. The four officers (chair, vice chair, secretary, and treasurer) are elected by Board members at the first Board meeting following the annual meeting.

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets for the NENA and changes therein are classified and reported as follows:

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

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

Permanently Restricted - Those resources subject to a donor-imposed restriction that they be maintained permanently by the NENA. The donors of these resources permitted the NENA 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 NENA is reported on the accrual basis 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 expenses.

F. Income Taxes

The NENA is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state statutes.

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

G. Cash

Cash consists of deposits in one checking account. At no time during the year did such deposits exceed FDIC insurance coverage.

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.

I. Grants and Contracts

The NENA receives funds from the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board. These funds are used to administer programs, provide grants to residents for the “Home Improvement Loan Program,” provide for informational and organizational mailings, and for general office support. The NRP is the primary funding source for the NENA. 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 NENA 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 Facilities and Items

The NENA received donated items for the Garage Sale in the amount of \$185. Plants and gardening tools of \$3,000 and design and planting oversight of \$5,000 were received for the Gateway Garden. The use of donated meeting spaces for the Annual Meeting and Minneapolis Park and Recreation Board meetings totaled \$520.

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

L. Accrued Vacation and Compensatory Time

Employees of the NENA earn 15 working days of vacation and 6 personal days each year. Compensatory time can be accrued up to a maximum of 40 hours. Since the NENA cannot charge its primary granting authorities for vacation and compensatory time until they are used, no provision has been made in the accompanying financial statements for recording the accrued liability and related expenses at year-end. At December 31, 2010, the amount of accrued vacation, personal days, and compensatory time was \$19,793.

2. Equipment

Equipment at December 31, 2010, was:

Equipment	\$ 3,753
Less: accumulated depreciation	<u>(2,787)</u>
Total Equipment	<u>\$ 966</u>

3. Deferred Revenue

Deferred revenue at December 31, 2010, was \$10,000 relating to NRP Contract #23984.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010, consist of funds from the Science Museum of Minnesota. The NENA received \$600 in 2006 and spent \$373 in 2007, leaving a balance of \$227.

5. Operating Leases

The NENA leases office space on a month-to-month basis. A 60-day notice is required by either party if intentions are to end the lease. The NENA also has a two-year lease on a copier. The copier lease is effective May 11, 2009, through May 11, 2011. For 2010, rental expense related to the office lease was \$11,580, and the copier lease was \$2,702.

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

5. Operating Leases (Continued)

Minimum future lease payments are as follows:

	<u>2011</u>
Office lease	\$ 11,580
Copier lease	<u>896</u>
Total	<u>\$ 12,476</u>

6. Home Improvement Program

The NENA has initiated the “Nokomis East Neighborhood Home Improvement Loan Program.” Funding for this program was provided by the NRP. The program consists of loans up to a maximum of \$10,000 for homeowners to complete interior or exterior projects on their homes. The contract was executed in 2003 with the Center for Energy and Environment, Inc. As of December 31, 2010, total loan and grant funds available are \$317,531.

7. Commercial Façade Improvement Program

The NENA has matching grants available to business and commercial property owners in the four Nokomis East neighborhoods to improve and restore the visual appeal and condition of the exterior facade of commercially zoned buildings. Matching grants of up to \$8,000 per single business-tenant property, or \$20,000 for multi-tenant buildings, are available with a total of \$159,000 available for the program. This contract was executed in 2003, and at December 31, 2010, there was \$75,946 remaining in this program.

8. Subsequent Events

The NENA has evaluated subsequent events through October 28, 2011, the date which the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Contract #13839</u>	<u>Contract #14052</u>	<u>Contract #23984</u>	<u>Total</u>
Revenues	\$ 5,043	\$ 20,037	\$ 145,909	\$ 170,989
Expenses				
Advertising	\$ -	\$ -	\$ 2,636	\$ 2,636
Artwork	-	-	24	24
Consulting	-	-	2,000	2,000
Equipment rental	-	39	142	181
Grants to others	5,043	-	-	5,043
Insurance	-	-	2,299	2,299
Internet	-	315	1,049	1,364
Membership	-	-	75	75
Mileage and parking	-	-	165	165
Miscellaneous	-	351	351	702
Newsletter labeling	-	-	1,606	1,606
Office supplies	-	186	1,334	1,520
Payroll				
Salaries	-	15,688	80,128	95,816
Taxes	-	-	7,057	7,057
Benefits	-	-	13,781	13,781
Performance fees	-	-	930	930
Photocopies	-	471	2,258	2,729
Postage	-	-	190	190
Printing	-	-	543	543
Professional fees	-	400	17,100	17,500
Project supplies	-	394	1,737	2,131
Rent	-	1,930	8,685	10,615
Software	-	-	166	166
Telephone	-	213	980	1,193
Utilities	-	-	166	166
Volunteer recognition	-	-	607	607
Total Expenses	\$ 5,043	\$ 19,987	\$ 146,009	\$ 171,039
Revenues Over (Under) Expenses	\$ -	\$ 50	\$ (100)	\$ (50)

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010**

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Internal Control/Financial Statement Preparation

Management is responsible for establishing and maintaining internal control. This responsibility includes internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Nokomis East Neighborhood Association (NENA) and its staffing limit the internal control that management can design and implement in the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the NENA. This decision was based on the availability of the NENA's staff and the cost benefit of using our expertise.

We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the NENA's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

NENA will continue to use an outside accounting firm which hosts Quickbooks for NENA, and which reconciles bank statements and prepares our 990. The Board of Directors is aware of its fiduciary responsibilities and the need to closely monitor financial reports, and will continue to look for opportunities to strengthen internal controls.

ITEM ARISING THIS YEAR

10-1 Coding of Invoices

A review of the NENA's disbursements found the coding on 6 of the 25 invoices examined did not match the coding in the general ledger. The discrepancies were due to expenses being re-coded in the general ledger, but not on the invoice, during the completion of grant reimbursement requests. The coding on the invoice should document where the expense is recorded in the general ledger. Incorrect coding may lead to expenses being misstated in the financial statements, or may lead to over or under reimbursement of expenses from grantors.

We recommend that when an item is re-coded in the general ledger, the supporting documentation be updated at the same time.

Client's Response:

NENA agrees that when an expense is re-coded, it should be recorded on the invoice, and will follow that practice in the future.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors
Nokomis East Neighborhood Association

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Nokomis East Neighborhood Association (NENA) (a nonprofit corporation) as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the NENA'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 NENA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NENA's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the NENA's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Recommendations as items 96-1 and 10-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The NENA's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the NENA's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Nokomis East Neighborhood Association'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

October 28, 2011