

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**LONGFELLOW COMMUNITY COUNCIL**  
**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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**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

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



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

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**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

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**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE  
2004**

<u>Board Members</u>	<u>Term Expires</u>
Candyce Anderson	May 2005
Kelly Bailey	May 2005
Grace Bartels	May 2005
Jerry Blue	May 2004
Jay Clark	May 2005
Jerry Dastych	May 2005
Keith Godin	May 2004
Brian Hall	May 2005
Linda Halone	May 2005
Don Hammen	May 2004
Michael Kari	May 2004
Dan McCabe	May 2005
Kevin McDonald	May 2005
Julia McGuire	May 2005
Rhonda Michelle	May 2005
Rebecca Miller	May 2004
Iric Nathanson	May 2005
Roy Nordos	May 2005
Ryan O'Leary	May 2005
Tony Scallon	May 2005
Chris Schmid	May 2005
Francisco Segovia	May 2005
John Sulzback	May 2005
Nicky Taylor	May 2004
DeWayne Townsend	May 2004
Ralph Wyman	May 2005
<u>Executive Director</u>	
Stephanie Haddad	November 2004
James Leith	July 2005

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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 of Directors  
Longfellow Community Council

We have audited the statement of financial position of the Longfellow Community Council (LCC) (a nonprofit corporation) as of December 31, 2004, and the related statements of activity, functional expenses, and cash flows for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the LCC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LCC as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of NRP Activity listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the LCC. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: July 29, 2005

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## **FINANCIAL STATEMENTS**

**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2004**

	<u><b>Total</b></u>
<b><u>Assets</u></b>	
<b>Current assets</b>	
Cash	\$ 126,348
Grants receivable	64,314
Pledges receivable	10,000
Prepaid expenses	<u>1,879</u>
<b>Total Assets</b>	<b><u><u>\$ 202,541</u></u></b>
 <b><u>Liabilities and Net Assets</u></b>	
<b>Liabilities</b>	
Current liabilities	
Salaries payable	\$ 5,174
Accounts payable	2,853
Deferred revenue	<u>35,085</u>
<b>Total Liabilities</b>	<b><u>\$ 43,112</u></b>
<b>Net Assets</b>	
Restricted	\$ 36,399
Unrestricted	<u>123,030</u>
<b>Total Net Assets</b>	<b><u>\$ 159,429</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 202,541</u></u></b>

**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Public Support and Other Revenue</b>			
<b>Public support</b>			
Government grants			
Minneapolis Community Planning and Economic Development Department (CPED)	\$ 66,375	\$ -	\$ 66,375
Neighborhood Revitalization Program	172,180	-	172,180
Hennepin County	12,000	-	12,000
Mississippi Waters Management Organization	35,963	-	35,963
McKnight Grant	21,488	8,512	30,000
Midtown Latino Organizing Project (MLOP)	267	19,733	20,000
Other contributions	7,894	8,154	16,048
<b>Total public support</b>	<b>\$ 316,167</b>	<b>\$ 36,399</b>	<b>\$ 352,566</b>
<b>Other revenue</b>			
Events	1,967	-	1,967
Miscellaneous	10,113	-	10,113
<b>Total Public Support and Other Revenue</b>	<b>\$ 328,247</b>	<b>\$ 36,399</b>	<b>\$ 364,646</b>
<b>Expenses</b>			
<b>Program services</b>			
Minneapolis Community Planning and Economic Development Department (CPED)	\$ 59,133	\$ -	\$ 59,133
Neighborhood Revitalization Program	174,906	-	174,906
Hennepin County	11,494	-	11,494
Mississippi Waters Management Organization	35,597	-	35,597
McKnight Foundation	21,488	-	21,488
Midtown Latino Organizing Project	267	-	267
<b>Total program services</b>	<b>\$ 302,885</b>	<b>\$ -</b>	<b>\$ 302,885</b>
<b>Support services</b>			
Management and general	5,185	-	5,185
<b>Total Expenses</b>	<b>\$ 308,070</b>	<b>\$ -</b>	<b>\$ 308,070</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 20,177</b>	<b>\$ 36,399</b>	<b>\$ 56,576</b>
<b>Net Assets - January 1</b>	<b>102,853</b>	<b>-</b>	<b>102,853</b>
<b>Net Assets - December 31</b>	<b>\$ 123,030</b>	<b>\$ 36,399</b>	<b>\$ 159,429</b>

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

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**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Minneapolis Community Planning and Economic Development Department</b>	<b>Neighborhood Revitalization Program</b>	<b>Hennepin County</b>
<b><u>Expenses</u></b>			
Salaries and benefits	\$ 16,688	\$ 87,411	\$ 8,283
Payroll taxes	1,136	9,458	820
Accounting services	830	1,518	-
Advertising	-	6,320	218
Equipment	822	4,355	-
Food	-	-	-
Grant awards	35,091	1,000	-
Insurance	962	8,089	-
Legal	-	98	-
Miscellaneous	-	-	-
Office supplies	199	2,333	-
Postage	322	4,291	1,210
Printing	1,649	8,110	963
Professional services	-	6,788	-
Program expenses			
Bicycle safety	-	2,721	-
Elm inoculation	-	985	-
Garden benches and kiosk	-	739	-
Midtown greenway	-	110	-
Midtown market	-	10,000	-
Restorative justice	-	6,554	-
Rent	750	7,597	-
Staff development	450	1,144	-
Telephone and internet	234	4,852	-
Travel	-	433	-
<b>Total Expenses</b>	<b>\$ 59,133</b>	<b>\$ 174,906</b>	<b>\$ 11,494</b>

**EXHIBIT 3**

<b>Mississippi Waters Management Organization</b>	<b>McKnight Foundation</b>	<b>Midtown Latino Organizing Project</b>	<b>Management and General</b>	<b>Total</b>
\$ 5,486	\$ 18,383	\$ -	\$ 3,331	\$ 139,582
575	1,640	-	124	13,753
-	-	-	-	2,348
578	-	267	-	7,383
148	-	-	-	5,325
-	218	-	14	232
12,702	-	-	379	49,172
-	1,048	-	-	10,099
-	-	-	-	98
-	-	-	489	489
-	-	-	175	2,707
486	199	-	154	6,662
2,085	-	-	-	12,807
13,537	-	-	450	20,775
-	-	-	-	2,721
-	-	-	-	985
-	-	-	-	739
-	-	-	-	110
-	-	-	-	10,000
-	-	-	-	6,554
-	-	-	-	8,347
-	-	-	-	1,594
-	-	-	69	5,155
-	-	-	-	433
<b>\$ 35,597</b>	<b>\$ 21,488</b>	<b>\$ 267</b>	<b>\$ 5,185</b>	<b>\$ 308,070</b>

**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

**EXHIBIT 4**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Cash Flows From Operating Activities</b>	
Increase (Decrease) in net assets	<b><u>\$ 56,576</u></b>
<b>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities</b>	
(Increase) decrease in grants receivable	\$ 11,533
(Increase) decrease in pledges receivable	(10,000)
(Increase) decrease in prepaid items	(1,387)
Increase (decrease) in accounts payable	(1,965)
Increase (decrease) in accrued payroll	334
Increase (decrease) in deferred revenue	<u>(20,617)</u>
<b>Total adjustments</b>	<b><u>\$ (22,102)</u></b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 34,474</b>
<b>Cash - January 1</b>	<b><u>91,874</u></b>
<b>Cash - December 31</b>	<b><u><u>\$ 126,348</u></u></b>

**LONGFELLOW COMMUNITY COUNCIL  
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

A. Organization

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

B. Council of Representatives and Officers

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

C. Basis of Presentation

The provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, have been applied to the amounts presented in these financial statements. Under these provisions, net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the LCC and changes therein are classified and reported as follows:

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

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

**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Basis of Presentation (Continued)

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

D. Basis of Accounting

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

E. Expense Allocation

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management in relation to grant budgets. Fund raising expenses are considered to be minimal, and those costs are included in management and general.

F. Income Taxes

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

G. Cash

Cash consists of deposits in one checking account and a business sweep savings account.

H. Equipment

All purchased equipment is valued at cost. Donated equipment is valued at fair value at the date of contribution. Depreciation is computed using the straight-line method over estimated useful lives of three years to five years, depending on the type of asset.

**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

I. Grants and Contracts

The LCC's funding includes cost-reimbursement grants from the City of Minneapolis' Community Planning and Economic Development (CPED) Department and the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board. Government grants and contracts recognize revenue as earned when eligible expenses, as defined in each grant or contract, are made. Funds advanced and received on the above grants but not yet earned are shown as deferred revenue. Expenses under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenses allowed under these grants, the LCC will record such disallowance at the time the final assessment is made.

J. Contributions

The following types of contributions are recorded as revenue at their fair value when they are received unconditionally: cash, promises to give, certain contributed services, and gifts of long-lived assets. Conditional contributions are recognized as restricted revenue when received.

K. Donated Services and Materials

There were no donated services and materials for the year ended December 31, 2004.

L. Accrued Paid Time Off (PTO)

Paid time off includes sick leave and vacation. Employees of the LCC earn between 10 and 25 days of PTO each year, depending on length of service. Since the LCC cannot charge its primary granting authorities for accrued PTO until it is used, no provision has been made in the accompanying financial statements for recording the accrued PTO liability and related expense at year-end. At December 31, 2004, the amount of accrued PTO was \$3,429.

**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

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2. Deferred Revenue

Deferred Revenue as of December 31, 2004, was:

NRP		
C96-10414		\$ 10,000
C96-10520		10,000
C96-10843A		7,500
C97-12249		7,050
MWMO 04/05		535
		535
Total		\$ 35,085

3. Equipment

Equipment at December 31, 2004, was:

Equipment		\$ 13,831
Less: accumulated depreciation		(13,831)
Total Equipment		\$ -

4. Operating Leases

The LCC leases office space on a two-year lease. The lease payments for 2004 were \$9,000. The LCC also leases a copier under a five-year lease, and a water cooler under an at-will lease. Total lease payments for the copier and water cooler for 2004 totaled \$4,067. Future minimum rental payments for these are as follows:

	Rent	Copier	Total
2005	\$ 9,000	\$ 3,209	\$ 12,209
2006	-	3,048	3,048
2007	-	762	762
		762	762
Total	\$ 9,000	\$ 7,019	\$ 16,019

**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

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5. Home Improvement Program

The LCC has initiated the “Longfellow Home Improvement Programs.” Funding for this program was provided by the NRP. The program consists of loans and grants for exterior improvements, basic home improvements, major remodeling, and emergency loans. As of December 31, 2004, 210 loans have been closed, utilizing \$1,459,684. Total funds remaining at year-end for additional loans were \$531,244. The program is administered by the Center for Energy and Environment/Community Revitalization Resources.

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

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**SCHEDULE OF NRP ACTIVITY**

**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF NRP ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Administration Contract #10520</u>	<u>Business Office Contract #10913</u>	<u>Housing Contract #10843A</u>
<b>Revenues</b>	<b>\$ 137,467</b>	<b>\$ 7,684</b>	<b>\$ 17,361</b>
<b>Expenses</b>			
Salaries and benefits	\$ 77,911	\$ -	\$ 9,500
Payroll taxes	8,365	-	1,093
Accounting services	1,346	-	172
Advertising	2,222	1,043	3,055
Equipment	3,857	462	-
Grant awards	-	-	-
Insurance	5,894	487	1,625
Legal	98	-	-
Office supplies	395	493	1,445
Postage	2,653	1,143	495
Printing	5,982	1,446	-
Professional services	6,125	663	-
Program			
Bicycle Safety	2,721	-	-
Elm Inoculation	985	-	-
Garden Benches and Kiosk	-	-	-
Midtown Greenway	110	-	-
Midtown Market	10,000	-	-
Restorative Justice	-	-	-
Rent	6,847	626	-
Staff development	1,144	-	-
Telephone and internet	3,705	1,078	-
Travel	392	-	41
<b>Total Expenses</b>	<b>\$ 140,752</b>	<b>\$ 7,441</b>	<b>\$ 17,426</b>
<b>Revenues Over (Under)</b>			
<b>Expenses</b>	<b>\$ (3,285)</b>	<b>\$ 243</b>	<b>\$ (65)</b>

Schedule 1

<u>Lease Contract #10706</u>	<u>Safety Contract #10414</u>	<u>Economic Corridor Contract #12859</u>	<u>Gardens Contract #12249</u>	<u>Total</u>
\$ 124	\$ 8,238	\$ 484	\$ 822	\$ 172,180
-	-	-	-	87,411
-	-	-	-	9,458
-	-	-	-	1,518
-	-	-	-	6,320
-	36	-	-	4,355
-	1,000	-	-	1,000
-	-	-	83	8,089
-	-	-	-	98
-	-	-	-	2,333
-	-	-	-	4,291
-	648	34	-	8,110
-	-	-	-	6,788
-	-	-	-	2,721
-	-	-	-	985
-	-	-	739	739
-	-	-	-	110
-	-	-	-	10,000
-	6,554	-	-	6,554
124	-	-	-	7,597
-	-	-	-	1,144
-	-	69	-	4,852
-	-	-	-	433
<u>\$ 124</u>	<u>\$ 8,238</u>	<u>\$ 103</u>	<u>\$ 822</u>	<u>\$ 174,906</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 381</u>	<u>\$ -</u>	<u>\$ (2,726)</u>

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**LONGFELLOW COMMUNITY COUNCIL  
MINNEAPOLIS, MINNESOTA**

Schedule 2

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

**I. COMPLIANCE**

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Grant Expenses Charged to Wrong Grant

Our previous report noted that no expenses had been recorded for the Community Powers Grant. It was concluded that expenses intended to be charged to the Community Powers Grant were instead charged to the Minneapolis Neighborhood Revitalization Program (NRP) Administration Grant. As a result, we questioned \$4,671--the full amount of the Community Powers Grant--of expenses that were incorrectly charged to the NRP Administration Grant.

The total questioned cost of \$4,671 has not yet been resolved between the Longfellow Community Council (LCC) and the NRP. We recommend that a resolution be determined as soon as possible.

Client's Response:

*This item was resolved in July of 2005. The items that were charged against the NRP Admin and NRP Housing Office contracts were reversed and charged to the Community Powers Grant. These adjustments were made to payment request #74 for the Admin contract and payment request #71 for the Housing Office contract.*

ITEM ARISING THIS YEAR

04-1 Lack of Documentation for Expenses Charged to CPED Program

We found that the LCC was reimbursed \$7,500 from the Minneapolis Community Planning and Economic Development Department (CPED) under the CPED Fix and Paint Grant program for salary expenses of the Community Development Coordinator. However, a review of the LCC's general ledger found that salary expenses of the Community Development Coordinator were charged to NRP, Hennepin County, and McKnight Foundation grants instead of the CPED Fix and Paint Grant. Due to the absence of documentation for the salary expenses charged, we are questioning the amount of \$7,500 that was received by the LCC from the CPED Fix and Paint Grant program.

We recommend that the LCC discuss this questioned amount with CPED officials to determine a resolution.

Client's Response:

*This item was resolved in October 2005. Community Development Coordinator salary expenses charged to the CPED Fixed and Paint grant in 2005 were reversed and charged to the McKnight grant. Community Development Coordinator salary expenses charged to the McKnight grant in 2004 were reversed and charged to the CPED Fix and Paint grant.*

## II. INTERNAL CONTROLS

### PREVIOUSLY REPORTED ITEM NOT RESOLVED

#### 96-2 Segregation of Duties

Due to the limited number of office personnel within the LCC, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the LCC; however, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Client's Response:

*The Longfellow Community Council (LCC) recognizes and understands the concerns noted by the State Auditor's Office in the Schedule of Findings and Recommendations regarding the segregation of accounting duties and responsibilities. The LCC will continue to make every effort to improve these functions. Furthermore, the LCC staff will make sure the LCC Executive Committee and Board of Directors are constantly aware of this condition and will encourage them to take an active and informed role in all of the organization's financial matters.*

*The LCC has a Segregation of Duties Policy and the organization will work hard to adhere to its guidelines. The LCC also has formalized policies for the handling of receipts, disbursements and payroll. This should help manage and improve internal controls.*



# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors  
Longfellow Community Council

We have audited the financial statements of the Longfellow Community Council (LCC) (a nonprofit corporation) as of and for the year ended December 31, 2004, and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### Internal Control Over Financial Reporting

The management of the LCC is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the LCC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting

and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the LCC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 96-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition listed above to be a material weakness.

### Compliance

As part of obtaining reasonable assurance about whether the LCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance, which are described in the Schedule of Findings and Recommendations as items 03-1 and 04-1.

This report is intended for the information of the LCC's Board of Directors, its management, and the Neighborhood Revitalization Policy Board and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: July 29, 2005