

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

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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**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2005



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

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**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

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**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2005**

<u>Board Members</u>	<u>Term Expires</u>
Barbara Kennedy	April 2008
Christopher Morris	April 2007
Jennifer Paige	April 2007
Eva M. Johnson	April 2008
Veetrice Malone-Brown	Resigned 2006
Yenviset Xiong	Resigned 2006
Antionette Ross	April 2007
Norma Miller	April 2008
Beverly Stancile	April 2008
Randall Butler	April 2006

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
McKinley Community

We have audited the statement of financial position of the McKinley Community (a nonprofit corporation) as of December 31, 2005, 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 McKinley Community'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 McKinley Community as of December 31, 2005, 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 McKinley

Community. 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: September 19, 2006

FINANCIAL STATEMENTS

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**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005**

<u>Assets</u>	
Current assets	
Cash	\$ 51,334
Petty cash	200
Prepaid insurance	1,438
Grants receivable	14,491
	<hr/>
Total current assets	\$ 67,463
Property and equipment	
Property and equipment - net of depreciation	6,461
	<hr/>
Total Assets	\$ 73,924
	<hr/> <hr/>
<u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable	\$ 900
Accrued payroll	2,494
Deferred revenue	19,125
	<hr/>
Total Liabilities	\$ 22,519
Net Assets	
Unrestricted	\$ 41,405
Temporarily restricted	10,000
	<hr/>
Total Net Assets	\$ 51,405
	<hr/>
Total Liabilities and Net Assets	\$ 73,924
	<hr/> <hr/>

**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Neighborhood Revitalization Program (NRP)	\$ 97,775	\$ -	\$ 97,775
Minneapolis Community Planning and Economic Development Department (CPED)	3,026	-	3,026
Northway Community Trust	-	10,000	10,000
Other contributions	4,980	-	4,980
Total public support	\$ 105,781	\$ 10,000	\$ 115,781
Other revenue			
Miscellaneous	346	-	346
Total Public Support and Other Revenue	\$ 106,127	\$ 10,000	\$ 116,127
Expenses			
Program services			
NRP	\$ 94,671	\$ -	\$ 94,671
CPED	2,679	-	2,679
Total program services	\$ 97,350	\$ -	\$ 97,350
Support services			
Management and general	6,248	-	6,248
Total Expenses	\$ 103,598	\$ -	\$ 103,598
Increase (Decrease) in Net Assets	\$ 2,529	\$ 10,000	\$ 12,529
Net Assets - January 1	38,876	-	38,876
Net Assets - December 31	\$ 41,405	\$ 10,000	\$ 51,405

**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Neighborhood Revitalization Program	Minneapolis Community Development Agency	Management and General	Total
<u>Expenses</u>				
Advertising	\$ 525	\$ 450	\$ -	\$ 975
Bank charges	9	3	126	138
Bookkeeping services	9,900	-	-	9,900
Communications	1,605	-	-	1,605
Contract services	1,373	-	3,249	4,622
Depreciation	-	-	1,619	1,619
Events	923	-	350	1,273
Insurance	1,471	583	-	2,054
Miscellaneous	5,513	-	-	5,513
Newsletter	206	-	-	206
Office supplies	1,755	277	-	2,032
Payroll				
Salaries	60,855	-	-	60,855
Taxes	4,610	-	904	5,514
Benefits	4,056	-	-	4,056
Payroll processing fees	673	-	-	673
Postage	551	1,079	-	1,630
Printing and copying	491	287	-	778
Program expense	80	-	-	80
Telephone	75	-	-	75
Total Expenses	\$ 94,671	\$ 2,679	\$ 6,248	\$ 103,598

**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Cash Flows From Operating Activities	
Increase (Decrease) in net assets	\$ 12,529
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities	
Depreciation	\$ 1,619
(Increase) decrease in grants receivable	83,608
(Increase) decrease in prepaid items	(3)
Increase (decrease) in deferred revenue	(11,243)
Increase (decrease) in accounts payable	(1,641)
Increase (decrease) in salaries payable	(20,751)
Total adjustments	\$ 51,589
Net cash provided by (used in) operating activities	\$ 64,118
Cash Flows from Investing Activities	
Acquisition of fixed assets	(1,313)
Cash Flows from Financing Activities	
Repayment of loans	(3,635)
Net Increase (Decrease) in Cash	\$ 59,170
Cash - January 1	(7,636)
Cash - December 31	\$ 51,534

**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

1. Summary of Significant Accounting Policies

A. Organization

The McKinley Community was organized to foster a sense of neighborhood pride, harmony, and ownership; to empower its residents to effect positive change by their involvement in improving housing stock; preventing and addressing crime; cooperatively resolving problems; and to build a generation of competent, caring, and principled young people by ensuring their developmental opportunities. The McKinley Community is governed by a Board of Directors with a maximum of 11 members.

B. Basis of Presentation

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

Unrestricted - Those resources over which the McKinley Community has discretionary control.

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

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

**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Expense Allocation

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses other than salaries and related expenses 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 expenses.

E. Income Taxes

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

F. Cash

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

G. Grants and Contracts

The McKinley Community receives Community Development Block Grant funds for “Citizen Participation” from the Minneapolis Community Planning and Economic Development Department (CPED). The McKinley Community also receives funds from 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 McKinley Community will record such disallowance at the time the final assessment is made.

**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

H. Equipment

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

I. Contributions

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

2. Cash

Cash consists of:

Checking accounts	\$ 51,334
Petty cash	<u>200</u>
Total Cash	<u><u>\$ 51,534</u></u>

3. Deferred Revenue

Deferred revenue at December 31, 2005, was:

NRP	
C98-12736	\$ 10,000
C98-12949	<u>9,125</u>
Total	<u><u>\$ 19,125</u></u>

**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

4. Property and Equipment

Property and equipment at December 31, 2005, is as follows:

Equipment	\$ 8,313
Less: accumulated depreciation	<u>(1,852)</u>
Total	<u>\$ 6,461</u>

5. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2005, were:

Northway Community Trust	<u>\$ 10,000</u>
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6. Loans Payable

The McKinley Community received a loan from the former Executive Director in 2003 in the amount of \$3,635 for cash flow purposes. This loan was repaid in October 2005.

7. McKinley NRP Loan Program

The McKinley Community has initiated the McKinley NRP Loan Program. Funding for this program was provided by the NRP. The program is administered by the Center for Energy and Environment. The program consists of providing capital to eligible neighborhood homeowners for expansion and improvements. The McKinley Community NRP Steering Committee determines community appropriateness only and defers determination of credit worthiness to the participating lenders.

SCHEDULE OF NRP ACTIVITY

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**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2005**

	C98-12736 Administration	C98-12949 Implementation	C95-3955 Participation	Total
Revenues	\$ 27,528	\$ 63,004	\$ 7,243	\$ 97,775
Expenses				
Advertising	\$ 225	\$ -	\$ 300	\$ 525
Bank charges	9	-	-	9
Bookkeeping services	9,900	-	-	9,900
Communications	87	-	1,518	1,605
Contract services	-	1,373	-	1,373
Events	-	923	-	923
Insurance	1,342	-	129	1,471
Miscellaneous	75	5,438	-	5,513
Newsletter	206	-	-	206
Office supplies	843	-	912	1,755
Payroll				
Salaries	12,703	44,812	3,340	60,855
Taxes	1,149	3,184	277	4,610
Benefits	-	4,056	-	4,056
Payroll processing fee	180	-	493	673
Postage	445	-	106	551
Printing and copying	378	-	113	491
Program expense	-	80	-	80
Telephone	-	-	75	75
Total Expenses	\$ 27,542	\$ 59,866	\$ 7,263	\$ 94,671
Revenues Over (Under) Expenses	\$ (14)	\$ 3,138	\$ (20)	\$ 3,104

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**MCKINLEY COMMUNITY
MINNEAPOLIS, MINNESOTA**

Schedule 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

I. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Double Billings to the Same Grant

Our previous report discussed amounts totaling \$7,201.61 that were billed twice to the same grant, under different NRP request forms. The NRP was able to resolve all amounts, except for \$407.85. As such, \$407.85 remains outstanding as a questioned amount.

We recommend that the McKinley Community officials discuss this questioned amount with the NRP officials to determine a resolution.

Client's Response:

This will be discussed with our NRP Liaison.

ITEM ARISING THIS YEAR

05-4 Double Billings to Different Grants

Our audit found that check number 2200, in the amount of \$508.71, was billed to both the NRP contract C95-3955 dated May 6, 2005, and to CPED contract number 21273 dated September 8, 2005. Only one of the contracts should be charged with this amount.

We recommend that the McKinley Community officials discuss this questioned amount with the NRP and CPED officials to determine a resolution.

Client's Response:

The double billing of check number 2200 for \$508.71 has been corrected and taken out of the CPED contract #21273 shown in deposit letter CPED dated 9/16/05 for \$8,452.05. Records were provided at exit meeting on Monday, October 30, 2006.

II. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

01-2 Segregation of Duties

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

Board Chair is currently approving invoices and forwarding to bookkeeper with approval for payment. Board also receives bank statements and reviews before sending to bookkeeper and receives monthly reconciliation and financial reports of records on a timely basis.

01-7 Coding and Approval of Invoices

Previous reports have recommended improvements to the approval and coding process for invoices. Our current review noted some improvement in this condition, but not to the extent to consider the matters resolved.

We again recommend that vendor invoices contain the initials and dates of individuals approving bills for payment and that they be marked with the appropriate general ledger coding.

Client's Response:

Board Chair authorizes all payments of invoices. Currently, bookkeeper is stamping all invoices with paid date and check number on them. Board Chair has chart of accounts for coding of invoices.

03-5 Time Sheet Records

Our previous report indicated that time sheets were not being signed by one of the employees. Our current review found some improvement in this condition, but we also found that some time sheets for one employee were not signed by a supervisor. The supervisor's signature on the time sheets provides the authorization for making payment to the employee.

We recommend that time sheets be signed by the employee and by the employee's supervisor.

Client's Response:

Currently, all time sheets are being signed by the employee and approved by Board Chair.

05-1 Cancellation of Invoices

Our previous report noted that vendor invoices were not being canceled. Invoices should be canceled to prevent a possible second payment for the same bill. Our current review found some improvement to this condition, but not to the extent we consider the matter resolved.

We again recommend that all pages of vendor bills be marked with the check number and date paid to provide evidence of cancellation.

Client's Response:

We are currently stamping all invoices with date paid and check number to avoid any further confusion on this issue.

ITEMS ARISING THIS YEAR

05-2 Documentation for Vendor Expenses

Our audit found instances of insufficient documentation to support payments to vendors. Documentation for vendor payments is the primary evidence to support and explain the nature of the organization's expenses.

We recommend that procedures be implemented to ensure all payments to vendors are supported by adequate documentation and retained for future reference.

Client's Response:

We have corrected this problem, and Board Chair is currently receiving and sending all documentation to bookkeeper at the time of request.

05-3 Accounting for Vacation and Sick Leave

We found no record kept by management to account for vacation and sick time earned, taken, and outstanding by employees. Maintaining such information on employee time sheets can be helpful, but management should be the responsible source for these amounts.

We recommend that a record be maintained by management to account for vacation and sick time earned, taken, and outstanding by employees. The balances should be compared for compliance with the McKinley Community's policy on leave time.

Client's Response:

We will revise time sheet template to track employee vacation and sick time taken.



PATRICIA ANDERSON
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
McKinley Community

We have audited the financial statements of the McKinley Community (a nonprofit corporation) as of and for the year ended December 31, 2005, and have issued our report thereon dated September 19, 2006. 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 McKinley Community is responsible for establishing and maintaining internal control. 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 control 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 control, 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 McKinley Community'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 McKinley Community's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 01-2, 01-7, 03-5, and 05-1 through 05-3.

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, of the reportable conditions listed above, we consider item 01-2 to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the McKinley Community's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance, except as described in the accompanying Schedule of Findings and Recommendations as items 03-1 and 05-4.

This report is intended solely for the information and use of the McKinley Community'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: September 19, 2006