

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**PREPARED BY:**

**MICHAEL S. WILSON**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANT**

## TABLE OF CONTENTS

**Independent Auditor's Report ..... 1-2**

### **Financial Statements**

**Statement of Financial Position ..... 3**

**Statement of Activities ..... 4**

**Statement of Functional Expenses..... 5**

**Statement of Cash Flows ..... 6**

**Notes To Financial Statements ..... 7-11**

### **Supplemental Information**

**Statement of NRP Activity ..... 12**

**Schedule of Findings and Recommendations ... 13-18**

Michael S. Wilson  
Certified Public Accountant  
Minneapolis, Minnesota  
(612) 558-1692

Independent Auditor's Report

Board of Directors  
Midtown Phillips Neighborhood Association  
Minneapolis, Minnesota

We have audited the accompanying statement of financial position of Midtown Phillips Neighborhood Association (a non-profit corporation) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and statements of cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis for Qualified Opinion**

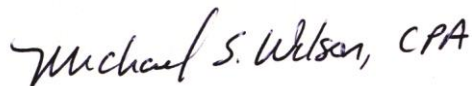
There was evidence that the accounting system failed to provide complete and accurate output consistent with the control objectives of reporting contractual obligations with government awards. The failure of the control objectives was attributable to lack of control activities, management override, and lack of accounting skills.

**Qualified Opinion**

In my opinion, because I was unable to satisfy my concerns about the amount of funds used in accordance with contractual obligations, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements referred to in the first paragraph.

**Other Matter**

My audit was made for the purpose of forming an opinion on the basic financial statements of Midtown Phillips Neighborhood Association taken as a whole. The Supplemental Schedule of City of Minneapolis Activity on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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 my opinion, I was unable to determine if the information is properly stated in relation to the statements taken as a whole.

Handwritten signature of Michael S. Wilson, CPA in cursive script.

Minneapolis, Minnesota

April 12, 2013

**MIDTOWN PHILLIPS**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2011 AND 2010**

**ASSETS**

<b>Current Assets</b>	<u>2011</u>	<u>2010</u>
Cash and short term investments	\$ 15,928	\$ 2,463
Contracts receivable	3,223	5,507
<b>Total Current Assets</b>	<u>19,151</u>	<u>7,970</u>
 <b>Property and Equipment</b>		
Office Equipment	0	0
Accumulated Depreciation	0	0
<b>Total Property and Equipment</b>	<u>0</u>	<u>0</u>
 <b>Total Assets</b>	<u><u>\$ 19,151</u></u>	<u><u>\$ 7,970</u></u>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>		
Accounts payable	\$ -	\$ -
Refundable advance	18,000	10,000
<b>Total Current Liabilities</b>	<u>18,000</u>	<u>10,000</u>
 <b>Net Assets</b>		
Unrestricted	1,151	(2,030)
<b>Total Net Assets</b>	<u>1,151</u>	<u>(2,030)</u>
 <b>Total Liabilities and Net Assets:</b>	<u><u>\$ 19,151</u></u>	<u><u>\$ 7,970</u></u>

**MIDTOWN PHILLIPS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEARS ENDING JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Unrestricted</b>		
<b>Support and revenue:</b>		
Hennepin County	\$ 1,750	\$ -
NRP Awards	33,881	46,582
Citizens Participation	2,430	7,217
Miscellaneous income	<u>685</u>	<u>979</u>
Total support and Revenue	<u>38,746</u>	<u>54,778</u>
<b>Expenses</b>		
Cepro	800	-
Citizen's participation	5,730	3,374
CPP	525	-
Hennepin County	1,750	-
General funds	174	-
NRP 1	26,585	51,605
Unclassified	<u>-</u>	<u>5,595</u>
Total expenses	<u>35,565</u>	<u>60,573</u>
Change in net assets	3,181	(5,795)
Net assets, beginning of year	<u>(2,030)</u>	<u>3,765</u>
Net assets, end of year	<u>\$ 1,151</u>	<u>\$ (2,030)</u>

**MIDTOWN PHILLIPS  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	CEPRO		Citizens Participation		CPP		FANS Project-Henn Cnty		Total General funds		NRP I		Total unclassified		TOTAL		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2010-2011	
<b>Expense</b>																		
<b>50000 - Expenses</b>																		
50005 - Internet Connection	-	-	-	64	-	-	-	-	-	-	54	378	-	4	54	445	499	
50006 - Postage	-	-	760	-	-	-	-	-	-	-	-	-	-	-	760	-	760	
50007 - Printing/Copying	-	-	1,470	1,292	-	-	-	-	-	-	-	2,482	-	-	1,470	3,774	5,244	
50008 - Telephone	-	-	-	-	-	-	-	-	-	-	142	519	-	-	142	519	661	
50009 - Office Supplies	-	-	-	-	-	-	-	-	-	-	-	196	-	-	-	196	196	
50010 - Phase 1 Evaluation	-	-	-	-	-	-	-	-	-	-	602	-	-	-	602	-	602	
50011 - Consultants	-	-	-	-	-	-	-	-	-	-	6,338	17,710	-	-	6,338	17,710	24,048	
50012 - Cepro Site Planning	800	-	-	-	-	-	-	-	-	-	15,700	30,300	-	-	16,500	30,300	46,800	
50013 - Consultants Youth Planning	-	-	-	-	-	-	1,750	-	-	-	3,750	-	-	-	5,500	-	5,500	
50014 - Filing Fee	-	-	-	-	25	-	-	-	-	-	-	-	-	-	25	-	25	
50015 - Meeting Expenses	-	-	-	-	-	-	-	-	150	-	-	-	-	-	150	-	150	
50016 - Community Events/Festivals	-	-	-	-	500	-	-	-	-	-	-	-	-	-	500	-	500	
50017 - Legal	-	-	2,000	1,819	-	-	-	-	-	-	-	-	-	-	2,000	1,819	3,819	
50018 - Outreach/Interpretation	-	-	1,500	-	-	-	-	-	-	-	-	-	-	-	1,500	-	1,500	
66900 - Uncatergorized	-	-	-	200	-	-	-	-	-	-	-	-	-	5,559	-	5,759	5,759	
50000 - Expenses - Other	-	-	-	-	-	-	-	-	24	-	-	19	-	32	24	51	75	
<b>Total 50000 - Expenses</b>	<b>800</b>	<b>-</b>	<b>5,730</b>	<b>3,374</b>	<b>525</b>	<b>-</b>	<b>1,750</b>	<b>-</b>	<b>174</b>	<b>-</b>	<b>26,585</b>	<b>51,605</b>	<b>-</b>	<b>5,595</b>	<b>35,565</b>	<b>60,573</b>	<b>96,138</b>	

**MIDTOWN PHILLPS  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Cash Flow From Operating Activity</b>		
Increase (decrease) in net assets	\$ 3,181	(5,795)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Adjustment	-	(1,742)
Increase in grants receivable	2,284	-
Increase in refundable advances	8,000	10,000
Total adjustments	<u>10,284</u>	<u>8,258</u>
<b>Cash Flow From Operating Activity</b>	13,465	2,463
 <b>Cash Flow from Financing Activities</b>		
Purchase of equipment	-	-
<b>Cash Flow From Financing Activities</b>		
<b>Increase in Cash and Cash Equivalents</b>	<u>13,465</u>	<u>2,463</u>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>2,463</u>	<u>-</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 15,928</u>	<u>2,463</u>



**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Organization:**

The Midtown Phillips Neighborhood Association (MPNA) is incorporated in the State of Minnesota as a nonprofit organization. In conjunction with the Minneapolis Neighborhood Revitalization Program (NRP), the MPNA preserves and enhances within the neighborhood public health safety, economic vitality and sense of community. The significant accounting policies employed are described below to enhance the usefulness of the financial statements to the reader.

**Method of Accounting:**

The provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made* and SFAS No. 117, *Financial Statements for Not-For-Profit Organizations*. Have been applied to the amounts presented in these financial statements.

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Midtown Phillips Neighborhood Association and changes therein are classified and reported as follows.

**Unrestricted Net Assets**

This classification contains net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets**

This category includes net assets subject to donor-imposed stipulations that May or will be met by actions of the Organization and/or the passage of time. Temporarily restricted net assets are released from restrictions when donor-imposed stipulations are satisfied.

**Permanently Restricted Net Assets**

These are net assets subject to donor-imposed stipulations that are required to be maintained permanently by the MPNA. This classification does not apply to MPNA.

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Income Taxes:**

Midtown Phillips Neighborhood Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and comparable state statutes. Therefore, no income taxes are paid and contributions to the Organization may be tax deductible by the donor. The Organization is also exempt from Minnesota franchise or income tax.

**Cash**

Cash includes deposits into checking and savings accounts which are available on demand. These deposits are FDIC insured.

**Property and Equipment:**

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years for furniture and equipment, and 40 years for the building. Upon retirement or other disposition of property and equipment, the applicable cost and accumulated depreciation is written-off. Donated equipment is valued at fair market value at the date of contribution.

**Contributions**

The following types of contributions are recorded as revenue at their fair market value when they are received unconditionally: cash, promises to give, certain contributed services, and gifts of long-lived assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. There were no donated services for the year ended June 30, 2011 that met the conditions for recognition.

**Major Funding Sources**

The MPNA receives a substantial amount of public support from sources that have recognized the benefits of MPNA programs in the community including foundations and residents. The MPNA also receives funds from the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board. These funds were used primarily for administrative support and programs. The Midtown Phillips Neighborhood Association receives Citizen Participation funds to produce and distribute the monthly newsletter.

**Subsequent Events**

The Company has evaluated subsequent events through April 12, 2013, the date which the financial statements were available to be issued.

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**Revenue Recognition**

Government grants and contracts are recognized as revenue 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 refundable advances. 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 Midtown Phillips Neighborhood Association will record such disallowance at the time the final assessment is made.

**Functional Accounting for Expenses**

The costs of providing the various programs have been presented on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting service benefited. 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**

Fundraising expenses are considered immaterial to the financial statements and are included in management and general expenses.

**Concentration**

The Organization receives a substantial amount of its support from various forms of government. A reduction in the level of funding from these sources would have a material effect on the Organization's programs and activities.

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 2. ACCOUNTS AND GRANTS RECEIVABLE**

Accounts receivable at June 30, 2011 are as follows:

Costs to be reimbursed under NRP contracts	<u>\$3,223</u>
--	----------------

**NOTE 3. EQUIPMENT AND DEPRECIATION**

Equipment at June 30, 2011 consisted of:

Equipment	\$ 1,200
Less: Accumulated Depreciation	<u>(1,200)</u>
Total equipment	<u>\$---</u>

Depreciation expense of \$0 was recorded in 2011.

**NOTE 4. REFUNDABLE ADVANCES**

Advances on government contracts for cost reimbursement contracts include:

NRP Phase 1	\$ 8,000
CPP	<u>10,000</u>
	<u>\$18,000</u>

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 5. CONTINGENT LIABILITIES**

Amounts submitted for collection by Midtown Phillips Neighborhood Association are subject to review by the City of Minneapolis, and in some cases reimbursement requests were rejected. If amounts collected by MPNA during the period of 2007 to 2009 are determined to be in violation of the contract, the City of Minneapolis may attempt to recover these funds. A potential recourse liability exists for MPNA until the City of Minneapolis is satisfied with the review of the funds. Consequently, a contingent liability may exist for funds received in previous periods.

**MIDTOWN PHILLIPS  
SCHEDULE OF CITY OF MINNEAPOLIS ACTIVITY  
FOR THE TWO YEARS ENDED  
JUNE 30, 2011 AND 2010**

	<u>30058-1 NRP Admin</u>	<u>CPED</u>	<u>Hennepin County</u>	<u>CPP</u>	<u>Other</u>	<u>Total</u>
10/15/2009 Draw request 3	8,293					8,293
3/25/2010 Draw request 4	38,300	-	-		-	38,300
11/1/2010 Draw request 5	14,380					14,380
12/17/2010 Draw request 6	19,501					19,501
	-					-
5/26/2009 Advance-2009 \$4000	-	-				-
2/12/2010 draw request 2-2009	-	3,217	-		-	3,217
3/15/2010 Advance-2010	-	4,000	-		-	4,000
4/25/2010 draw request 2-2010	-	2,430	-		-	2,430
	-					-
3/7/2011 Henn Cnty	-	-	1,750		-	1,750
3/7/2011 other	-	-	-		1,937	1,937
6/21/2011 CPP-ADVANCE	-	-	-	10,000	-	10,000
Total cash collections	<u>\$ 80,474</u>	<u>\$ 9,647</u>	<u>\$ 1,750</u>	<u>\$ 10,000</u>	<u>\$ 1,937</u>	<u>\$ 103,808</u>
Less: Contracts receivable beginning of year	5,507	-	-		-	5,507
Amount collected for current year	74,967	9,647	1,750	10,000	1,937	98,301
Add: Contracts receivable end of year	<u>3,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,223</u>
Accrued revenue	78,190	9,647	1,750	10,000	1,937	101,524
Expenses for contract current year	<u>\$ 78,190</u>	<u>\$ 9,104</u>	<u>\$ 1,750</u>	<u>\$ 525</u>	<u>\$ 5,693</u>	<u>95,262</u>
Excess revenues	<u>\$ -</u>	<u>\$ 543</u>	<u>\$ -</u>	<u>\$ 9,475</u>	<u>\$ (3,756)</u>	<u>\$ 6,262</u>

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011 AND 2010**

**NEW ITEMS**

**11-1 Separation of Duties in the Accounting Function**

Due to the limited number of office personnel within the Midtown Phillips Neighborhood Association (MPNA), segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of MPNA; however, the MPNA's 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 for strong internal controls.

In reviewing previous practices related to cash disbursements functions, we noted that one person had more responsibility than is optimal. For instance, they approved disbursements, signed checks, received and reviewed unopened bank statements and cancelled checks, and reviewed bank statements. No bank reconciliations were performed. This condition could provide an opportunity for misappropriation of funds and concealment of such activity. In order to mitigate this condition, we recommend that a separate board member receive and review unopened bank statements and cancelled checks. This control usually takes no more than an hour each month and provides a supervisory control that can help prevent or detect improper or unauthorized disbursements.

**Client Response**

**Management Response:**

Several safeguards have now been put into place.

1. Only Board members, specifically the Executive Officers will be allowed to sign checks. This will occur through Board action annually following each Annual Meeting. Executive Officers and the Board will review for any existing Conflict of Interest and that all processes have been followed prior to Officer Election and Check Signing resolution.
2. Midtown Phillips has established an office space so that all mail will go to an official mailing address vs. to an individual's home. All files and equipment have been moved to this office space.
3. We have a requirement for two (2) check signers.
4. We have a check request document and procedure in place in which the board reviews and approves all check requests and we reflect these requests in our minutes. This provides the organization with documentation and a process to cross-check all financial actions of the organization.
5. Electronic bank statements go directly to the President of the Board who will forward them to book-keeper and to the Treasurer.

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011 AND 2010**

**11-2 Competitive Bids**

Contracts executed by a board member could be perceived as representing a conflict of interest either in fact or appearance. One strategy to accomplish this goal is to require that all major expenditures are subject to competitive bids. There was no evidence the Organization used a competitive bidding process before awarding consulting contracts.

At present, MPNA allows a person to make purchases without first obtaining competitive bids from several suppliers. This increases the risk that the Company does not obtain the best price or quality. It also provides an opportunity for a dishonest employee to receive kickbacks. To reduce these risks, we recommend that a policy be established requiring the purchasing agent to obtain competitive bids from several suppliers for single purchases over a specified dollar amount or ongoing purchases that are expected to aggregate to a specified amount. The agent should compare the bids and recommend one based on factors such as cost, quality, delivery, customer support, etc. The recommendation should then be approved by the board of directors based on a review of the various bids and information supporting the recommendation.

In addition, contractual agreements with board members are not recommended by the Minnesota Attorney General's Guide for Board Members, and the Minnesota Charity Review Council. Both Organizations discourage contracts between organizations and board members with the Director having the burden of establishing that the contract was fair and reasonable.

**Client Response**

The financial policies have been updated and approved by the board of directors which includes a competitive bid process.

**11-3 Reimbursable Expenses**

The MPNA board member serving as an independent consultant requested and received reimbursement for their personal home phone, internet, and cell phone expenses.

**Client Response**

Board policy is that no board member will serve as a contractor. Future independent contractors will be only be reimbursed for expenses identified in the contract.

**11-4 Conflict of Interest Policy**

According to the Minnesota Attorney General's office, directors have an absolute duty of complete, undivided loyalty to the organization. This means that directors should avoid using their position or the organization's assets in a way which would result in pecuniary or monetary gain for them. The Organization should have a conflict of interest policy, and ask board members to sign this form annually.



**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011 AND 2010**

**Client Response**

The MPNA has a conflict of interest policy in place for all board members. All new members will sign the policy upon election to the board.

**11-5 Board Minutes**

Written minutes should be taken at every regularly scheduled and published board meeting. The minutes should accurately reflect board discussions as well as actions taken at every meeting.

**Client Response**

The MPNA will prepare board minutes for the regularly scheduled board meeting. Board minutes will be reviewed for accuracy, and board minutes will include the votes of individual board members with names published for votes of NO and abstention.

**11-6 Fixed Assets**

All fixed assets should be marked and identified as property of MPNA and recorded in a fixed asset log. The risk of unauthorized possession of a computer is reduced by clearly identify the asset as property of MPNA.

**Client Response**

The MPNA has developed a fixed asset policy that includes a listing of all fixed assets and a depreciation schedule with our accountant.

**11-7 Contract Advances**

During a review of contract revenues and expenses, it was noted that the Citizen Participation contract for the two years audited did not include an advance that was received just prior to the start of the audit period. This may suggest the MPNA has not properly accounted for Citizen Participation funds.

**Client Response**

The MPNA will work to resolve the difference in contract expenditures with the Neighborhood and Community Relations staff by June 1, 2013.

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011 AND 2010**

**11-8 Compliance Testing**

During testing of cash disbursements some transactions failed to have supporting documentation. We recommend a check request form be used to document expenditures are authorized. A check request form is generally an effective tool for maintaining control over expenditures. It helps to ensure that only authorized expenditures are made.

In addition, checks submitted to the officers for signature should in every case be accompanied by the supporting invoices which should be initialed to reflect final approval for payment, and to prevent reuse of the invoices. We recommend that a stamp imprint, providing for check number, date paid, account charged, approval of prices, receipt of goods or services, approval of footings and extensions, and final approval for payment by the check signer, be impressed on each supporting invoice prior to payment. Final approval for payment should be dependent on proper preliminary approvals as indicated.

In the case of expenditures not likely to be supported by formal invoice, we recommend that preprinted check request forms be made available that will provide for date, payee, check number, description of expenditure and approval signature. These would serve as the supporting document accompanying checks to be signed.

**Client Response**

Midtown Phillips Neighborhood Association, Inc. has hired an accountant. The MPNA is developing a check request form to document disbursements are authorized and approved to support all expenses.

**11-9 Missing checks**

During our audit testing of the operating cash account, we noted that checks are not used in numerical sequence. Checks are taken from the checkbook and then used at a later date or postdated. Tight control should be maintained over used and unused checks to prevent misuse and to make sure that all checks issued are recorded in the appropriate period. Periodically, the sequence of used and unused check numbers should be accounted for.

While examining the bank statements during the audit period, we noted several checks that had been voided but not defaced. That is, when an error was made in preparing a check, a new check was prepared. However, the original check was not defaced or otherwise rendered unusable; thus creating a potential for someone who can gain access to the check to misappropriate cash by completing the data on the check for fraudulent purposes. To reduce this risk we recommend that all voided checks be properly defaced to ensure that they could not be improperly completed and cashed.

We also noted that checks that have been voided are not being kept. This is an important control procedure to ensure that checks shown in the accounting records as voided are recorded correctly. We recommend that management adopt a policy requiring all voided checks to be kept and filed in numerical sequence with the other checks returned by the bank.

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011 AND 2010**

**Client Response**

Midtown Phillips Neighborhood Association, Inc. has hired an accountant. We have developed a process in accordance with our financial policies that will not allow blank checks to be accessed. In addition all voided checks will be retained. In addition a new check request form and filing procedures will help to provide an audit trail.

**11-10 Prior Year Expenses**

During our audit we noticed MPNA personnel frequently had difficulty locating vendor files. Several steps can be taken to improve this condition:

1. Develop a filing system based on alphabetizing vendor files.
2. Establishment of sign-out procedures for any file removed.
3. Label all boxes of files to identify its contents.

In addition, financial records for NRP contracts that cover the period of 2005 until 2009 were unavailable. This lack of support raises concerns about how accurate and legitimate NRP draw requests were since the NRP contract was first accessed. This work was outside the scope of this audit.

**Client Response**

Due to the volunteer nature of the Organization, the MPNA maintained files at various locations in the past. All files are property of Midtown Phillips and are now been centrally located.

**11-11 Contract Receivable**

We recommend that when inspecting billings to the City of Minneapolis, an appropriate board member examine the documentation. The reviewer may also try to match the charges to known activities. If there are questions about costs and whether they are should by reimbursed by the City of Minneapolis, this should be discussed at board meeting prior to submitting the expenses for reimbursement. It appears that excess revenues were collected from the City of Minneapolis on cost reimbursement contracts and amounts need to be refunded to the City of Minneapolis

**Client Response**

Midtown Phillips Neighborhood Association, Inc. has hired an accountant. We have reviewed the books and made the adjustment. We will work with Neighborhood and Community Relations and Development Finance to resolve the differences

**MIDTOWN PHILLIPS NEIGHBORHOOD ASSOCIATION  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011 AND 2010**

**11-12 Unclassified Funds**

During the audit period, the MPNA did not have the ability to prepare financial statements in a manner that was consistent with accounting principles generally accepted in the United States. It is not unusual for an Organization of this size to not prepare financial statements in accordance with accounting standards. However, when an Organization prepares its financial statements on the basis of cash receipts and disbursements, the financial statements do not reflect the complete effects of an entity's financial transaction for the period. In addition, the inability to identify the funding sources for "unclassified" expenses may result in the loss of government awards that are based on cost reimbursement principles.

These expenses may be eligible for reimbursement if they can be identified as supporting a program. The MPNA should work to identify how these funds were used and whether they are eligible for reimbursement.

**Client Response**

Midtown Phillips Neighborhood Association, Inc. has hired an accountant. We have itemized these expenses and attributed them to a funding source.

**11-13 Policies and Procedures**

We noted a certain amount of confusion about exactly what tasks are to be performed and what procedures should be required or allowed. We understand that most of this resulted from the fact that the MPHNA was recently organized and many individuals were new to the process. Since the early period of operations is a critical time, we recommend that logical organization and sound procedures be formally established, in writing, to avoid the acceptance of weak procedures established through common usage and expediency. We also recommend that a comprehensive accounting manual be prepared that would define accounting policies, procedures, and internal controls.

**Client Response**

Midtown Phillips Neighborhood Association, Inc. has created a set of policies and procedures that we have incorporated into board policies that have been adopted by the board. We will have board training annually.