

## Financial Section



JUDITH H. DUTCHER  
STATE AUDITOR

**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

SUITE 400  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(612) 296-2551 (Voice)  
(612) 296-4755 (Fax)  
stateauditor@osa.state.mn.us (E-Mail)  
1-800-627-3529 (Relay Service)

**INDEPENDENT AUDITOR'S REPORT**

**Neighborhood Council  
People of Phillips, Inc.**

We were engaged to audit the accompanying statement of financial position of People of Phillips, Inc., as of December 31, 1996, and the related statements of activities, revenues and functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the People of Phillips' management.

Sufficient accounting records were not available to support compensatory time use or vacation accrual of \$11,621 at December 31, 1996. People of Phillips, Inc., did not have supporting documentation for accounts receivable of \$27,345 at December 31, 1996. Accounting records did not support payments to vendors and their related classification of functional expenses for the year ended December 31, 1996. Neither did the records support program revenues. The records of People of Phillips, Inc., did not permit the application of other auditing procedures to these conditions.

The accounting records did not segregate expenses associated with fund raising activities. Therefore, the functional expenses of People of Phillips, Inc., as presented in the financial statements, are not in accordance with generally accepted accounting principles.

Since People of Phillips, Inc., did not provide sufficient records to support compensatory time use and vacation accrual, certain accounts receivable, vendor payments, and the classification of functional expenses; we were not able to apply other auditing procedures to these amounts; and we were unable to determine expenses associated with fund raising through the accounting records, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

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In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 1997, on our consideration of People of Phillips' internal control structure and a report dated December 19, 1997, on its compliance with laws and regulations.



JUDITH H. DUTCHER  
STATE AUDITOR



GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 19, 1997

## **FINANCIAL STATEMENTS**

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 1996**

	Unrestricted	Temporarily Restricted	Total
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash	\$ (135,759)	\$ 236,131	\$ 100,372
Accounts receivable	94,747	-	94,747
Grants receivable - Neighborhood Revitalization Program (NRP)	138,257	-	138,257
Grants receivable	121,771	125,000	246,771
Leases receivable	10,012	-	10,012
Prepaid expenses	4,818	-	4,818
<b>Total current assets</b>	<b>\$ 233,846</b>	<b>\$ 361,131</b>	<b>\$ 594,977</b>
<b>Property and equipment</b>			
Net of depreciation	12,020	396,209	408,229
<b>Total Assets</b>	<b>\$ 245,866</b>	<b>\$ 757,340</b>	<b>\$ 1,003,206</b>
<b><u>Liabilities and Net Assets</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 161,049	\$ -	\$ 161,049
Contracts payable	119,337	-	119,337
Payroll taxes	83,219	-	83,219
Accrued payroll	24,672	-	24,672
Leases payable	5,214	-	5,214
Deferred leases receivable	5,500	-	5,500
<b>Total current liabilities</b>	<b>\$ 398,991</b>	<b>\$ -</b>	<b>\$ 398,991</b>
<b>Long-term liabilities</b>			
Capital leases payable	\$ 15,095	\$ -	\$ 15,095
Accrued vacation	11,621	-	11,621
NRP loans payable	120,000	-	120,000
<b>Total long-term liabilities</b>	<b>\$ 146,716</b>	<b>\$ -</b>	<b>\$ 146,716</b>
<b>Total Liabilities</b>	<b>\$ 545,707</b>	<b>\$ -</b>	<b>\$ 545,707</b>
<b>Net Assets</b>	<b>(299,841)</b>	<b>757,340</b>	<b>457,499</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 245,866</b>	<b>\$ 757,340</b>	<b>\$ 1,003,206</b>

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 1996**

	Unrestricted	Temporarily Restricted	Total
<b>Public Support and Other Revenue</b>			
<b>Public support</b>			
Government grants			
City of Minneapolis	\$ 445,552	\$ -	\$ 445,552
Minneapolis Community Development Agency (MCDA)	19,372	-	19,372
Neighborhood Revitalization Program (NRP)	232,172	-	232,172
State of Minnesota	7,683	-	7,683
Other	2,000	-	2,000
Foundation grants	173,600	50,000	223,600
Corporation grants	18,697	-	18,697
Other contributions	12,301	-	12,301
Satisfaction of time and purpose restrictions	96,516	(96,516)	-
	<b>\$ 1,007,893</b>	<b>\$ (46,516)</b>	<b>\$ 961,377</b>
<b>Other revenue</b>			
Fee and event income	\$ 100,593	\$ -	\$ 100,593
Miscellaneous	29,230	-	29,230
	<b>\$ 129,823</b>	<b>\$ -</b>	<b>\$ 129,823</b>
	<b>\$ 1,137,716</b>	<b>\$ (46,516)</b>	<b>\$ 1,091,200</b>
<b>Expenses</b>			
<b>Program services</b>			
MCDA	\$ 32,740	\$ -	\$ 32,740
Economic development	1,256	-	1,256
Foundations	85,035	-	85,035
NRP implementation			
Administration	135,742	-	135,742
Native American	20,418	-	20,418
District organizers	101,815	-	101,815
Community economic development	59,305	-	59,305
Youth programs	167,113	-	167,113
Housing	286,807	-	286,807
EC/EZ	170,892	-	170,892
NRP general	36,001	-	36,001
NRP/Mobile safety center	54,578	-	54,578
Youth enterprise center	20,065	-	20,065
NRP/theatre	48,183	-	48,183
NRP/Phillips community office center	21,600	-	21,600
NRP/HRCP	45,374	-	45,374
NRP/Arts and culture	3,574	-	3,574
	<b>\$ 1,290,498</b>	<b>\$ -</b>	<b>\$ 1,290,498</b>
<b>Support services</b>			
Management and general	125,704	-	125,704
	<b>\$ 1,416,202</b>	<b>\$ -</b>	<b>\$ 1,416,202</b>

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

**EXHIBIT 2  
(Continued)**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 1996**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Increase (Decrease) in net assets</b>	<b>\$ (278,486)</b>	<b>\$ (46,516)</b>	<b>\$ (325,002)</b>
Net Assets - January 1	\$ 15,928	\$ 803,856	\$ 819,784
Prior period adjustment (Note 2)	<u>(37,283)</u>	<u>-</u>	<u>(37,283)</u>
<b>Net Assets - January 1, as restated</b>	<b>\$ (21,355)</b>	<b>\$ 803,856</b>	<b>\$ 782,501</b>
<b>Net Assets - December 31</b>	<b>\$ (299,841)</b>	<b>\$ 757,340</b>	<b>\$ 457,499</b>

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

**STATEMENT OF REVENUES AND FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 1996**

	MCDA	Economic Development	Foundations	Management and General
<b><u>Revenues</u></b>				
Government grants				
City of Minneapolis	\$ -	\$ -	\$ -	\$ -
Minneapolis Community Development Agency (MCDA)	19,372	-	-	-
Neighborhood Revitalization Program (NRP)	-	-	-	-
State of Minnesota	-	-	-	-
Other	-	-	-	2,000
Foundation grants	-	-	20,000	147,600
Corporation grants	-	-	-	13,062
Other contributions	-	-	-	2,369
Fee and event income	-	-	-	6,404
Miscellaneous	-	-	-	2,668
<b>Total Revenues</b>	<b>\$ 19,372</b>	<b>\$ -</b>	<b>\$ 20,000</b>	<b>\$ 174,103</b>
<b><u>Expenses</u></b>				
Salaries	\$ 24,044	\$ 1,154	\$ 21,061	\$ 18,988
Payroll taxes	1,957	102	4,149	5,239
Workers' compensation	-	-	-	-
Employee benefits	830	-	292	2,430
Professional fees	40	-	34,115	1,009
Advertising fees	455	-	890	568
Building rent	-	-	-	544
Building repairs	-	-	-	-
Copying/printing	102	-	195	225
Depreciation	2,036	-	2,036	2,036
Equipment purchases	978	-	-	10,902
Insurance	887	-	198	-
Meetings/childcare	467	-	3,957	526
Local travel	-	-	9	-
Miscellaneous	-	-	3	2,392
Office expense	142	-	16	4,017
Program expense	35	-	5,830	75,000
Office supplies	166	-	-	681
Postage	310	-	13	-
Repairs/maintenance	118	-	-	445
Telephone	175	-	-	641
Project/community	-	-	12,272	-
Administrative support	-	-	-	-
Loss on trade-in of fixed assets	-	-	-	61
<b>Total Expenses</b>	<b>\$ 32,742</b>	<b>\$ 1,256</b>	<b>\$ 85,036</b>	<b>\$ 125,704</b>
<b>Net Surplus (Deficit)</b>	<b>\$ (13,370)</b>	<b>\$ (1,256)</b>	<b>\$ (65,036)</b>	<b>\$ 48,399</b>



**EXHIBIT 3**

NRP Implementation					
Administration	Native American	District Organizers	Community Economic Development	Youth Programs	Housing
\$ -	\$ -	\$ -	\$ -	\$ 375	\$ 251,818
-	-	-	-	-	-
76,137	21,112	3,366	917	-	77,532
-	-	-	-	-	7,683
-	-	-	-	-	-
-	-	-	-	56,000	-
-	-	-	-	5,285	-
-	-	-	-	3,944	5,988
-	-	-	-	51,089	42,810
-	-	-	-	16,449	10,113
<b>\$ 76,137</b>	<b>\$ 21,112</b>	<b>\$ 3,366</b>	<b>\$ 917</b>	<b>\$ 133,142</b>	<b>\$ 395,944</b>
\$ 69,236	\$ 2,378	\$ 72,957	\$ 40,361	\$ 87,400	\$ 109,195
5,936	242	6,664	3,475	7,432	9,051
286	57	286	115	-	5,137
7,762	793	6,900	4,314	4,227	13,797
20,251	5,860	-	-	7,544	31,937
2,724	1,292	428	2,242	3,646	2,976
-	-	943	1,681	490	33,906
179	-	-	-	-	4,597
1,604	1,099	972	1,249	630	1,613
2,036	-	-	-	2,036	1,351
5,393	2,480	4,894	424	8,058	2,893
3,448	748	1,767	1,485	4,257	3,084
4,533	286	717	496	4,791	2,180
15	-	-	15	1,364	45
-	-	-	-	5,316	3,092
851	180	444	258	1,637	1,753
231	-	144	8	13,843	46,398
2,768	842	896	741	1,407	2,186
2,255	1,295	1,931	857	846	1,807
2,558	911	542	135	2,291	4,730
3,445	1,954	1,331	1,449	5,339	4,242
229	-	-	-	4,559	838
-	-	-	-	-	-
-	-	-	-	-	-
<b>\$ 135,740</b>	<b>\$ 20,417</b>	<b>\$ 101,816</b>	<b>\$ 59,305</b>	<b>\$ 167,113</b>	<b>\$ 286,808</b>
<b>\$ (59,603)</b>	<b>\$ 695</b>	<b>\$ (98,450)</b>	<b>\$ (58,388)</b>	<b>\$ (33,971)</b>	<b>\$ 109,136</b>

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

**STATEMENT OF REVENUES AND FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 1996**

	<u>EC/EZ</u>	<u>NRP General</u>	<u>NRP Mobile Safety Center</u>
<b><u>Revenues</u></b>			
Government grants			
City of Minneapolis	\$ 155,437	\$ -	\$ 21,879
Minneapolis Community Development Agency (MCDA)	-	-	-
Neighborhood Revitalization Program (NRP)	-	-	9,739
State of Minnesota	-	-	-
Other	-	-	-
Foundation grants	-	-	-
Corporation grants	-	-	350
Other contributions	-	-	-
Fee and event income	-	-	250
Miscellaneous	-	-	-
<b>Total Revenues</b>	<b>\$ 155,437</b>	<b>\$ -</b>	<b>\$ 32,218</b>
<b><u>Expenses</u></b>			
Salaries	\$ 95,427	\$ 17,706	\$ 21,589
Payroll taxes	8,588	1,447	1,916
Workers' compensation	1,752	-	-
Employee benefits	3,458	971	2,914
Professional fees	31,256	1,500	9,096
Advertising fees	309	-	200
Building rent	3,804	9,600	9,600
Building repairs	-	-	-
Copying/printing	-	-	-
Depreciation	-	2,036	-
Equipment purchases	2,056	379	761
Insurance	8,970	536	2,006
Meetings/childcare	200	-	330
Local travel	1,852	-	235
Miscellaneous	528	-	-
Office expense	1,019	-	-
Program expense	4,564	-	1,788
Office supplies	1,539	46	25
Postage	890	-	42
Repairs/maintenance	472	484	-
Telephone	3,692	881	-
Project/community	516	75	4,077
Administrative support	-	340	-
Loss on trade-in of fixed assets	-	-	-
<b>Total Expenses</b>	<b>\$ 170,892</b>	<b>\$ 36,001</b>	<b>\$ 54,579</b>
<b>Net Surplus (Deficit)</b>	<b>\$ (15,455)</b>	<b>\$ (36,001)</b>	<b>\$ (22,361)</b>

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

**EXHIBIT 3**  
**(Continued)**

Youth Enterprise Center	NRP/Theatre	NRP/Phillips Community Office Center	NRP/HRCP	NRP Arts and Culture	Total
\$ 15,028	\$ -	\$ -	\$ 1,015	\$ -	\$ 445,552
-	-	-	-	-	19,372
20,015	11,868	6,901	3,044	1,541	232,172
-	-	-	-	-	7,683
-	-	-	-	-	2,000
-	-	-	-	-	223,600
-	-	-	-	-	18,697
-	-	-	-	-	12,301
-	40	-	-	-	100,593
-	-	-	-	-	29,230
<b>\$ 35,043</b>	<b>\$ 11,908</b>	<b>\$ 6,901</b>	<b>\$ 4,059</b>	<b>\$ 1,541</b>	<b>\$ 1,091,200</b>
\$ -	\$ 23,196	\$ -	\$ 38,916	\$ 1,912	\$ 645,520
-	2,099	-	3,558	150	62,005
-	172	-	-	-	7,805
-	3,878	-	2,444	-	55,010
2,620	10,118	-	-	634	155,980
250	4,454	-	156	175	20,765
9,921	-	21,600	-	69	92,158
-	-	-	-	3	4,779
-	-	-	-	6	7,695
-	-	-	-	-	13,567
1,572	472	-	188	352	41,802
3,378	2,918	-	-	17	33,699
20	41	-	-	52	18,596
-	-	-	-	-	3,535
-	-	-	111	-	11,442
30	-	-	-	-	10,347
-	-	-	-	-	147,841
38	183	-	-	29	11,547
-	2	-	-	94	10,342
2,236	649	-	-	12	15,583
-	-	-	-	68	23,217
-	-	-	-	-	22,566
-	-	-	-	-	340
-	-	-	-	-	61
<b>\$ 20,065</b>	<b>\$ 48,182</b>	<b>\$ 21,600</b>	<b>\$ 45,373</b>	<b>\$ 3,573</b>	<b>\$ 1,416,202</b>
<b>\$ 14,978</b>	<b>\$ (36,274)</b>	<b>\$ (14,699)</b>	<b>\$ (41,314)</b>	<b>\$ (2,032)</b>	<b>\$ (325,002)</b>

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

**EXHIBIT 4**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 1996**

<b>Cash flows from Operating Activities</b>		
Increase (Decrease) in net assets	\$	<u>(325,002)</u>
 <b>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities</b>		
Depreciation	\$	13,567
Loss on disposal of fixed assets		61
(Increase) decrease in accounts receivable		(94,747)
(Increase) decrease in grants receivable		518,023
(Increase) decrease in leases receivable		(10,012)
(Increase) decrease in prepaid expenses		(2,831)
Increase (decrease) in bank overdraft		(71,899)
Increase (decrease) in notes payable		(2,288)
Increase (decrease) in accounts payable		106,424
Increase (decrease) in contracts payable		119,337
Increase (decrease) in payroll taxes payable		82,917
Increase (decrease) in accrued vacation		3,230
Increase (decrease) in accrued payroll payable		18,145
Increase (decrease) in deferred revenue		<u>5,500</u>
<b>Total adjustments</b>	<b>\$</b>	<b><u>685,427</u></b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$</b>	<b><u>360,425</u></b>
 <b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	\$	<u>(313,231)</u>
 <b>Cash Flows from Financing Activities</b>		
Reduction in long-term liabilities - capital leases	\$	(4,082)
Addition of loan payable		<u>55,923</u>
<b>Net cash provided by (used in) financing activities</b>	<b>\$</b>	<b><u>51,841</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$</b>	<b><u>99,035</u></b>
<b>Cash and Cash Equivalents - January 1</b>		<u>1,337</u>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$</b>	<b><u><u>100,372</u></u></b>
 <b>Supplemental data for noncash investing and financing activities</b>		
Gifts of equipment	\$	3,800
Fixed asset acquired by capital lease		19,039
 <b>Supplemental disclosure of cash flows</b>		
Cash paid during the year for interest	\$	2,221

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1996

1. Summary of Significant Accounting Policies

A. Organization

People of Phillips, Inc. (POP) was organized to develop a sense of community in the Phillips Neighborhood of Minneapolis; to encourage widespread citizen participation in all decision-making processes affecting the community; to provide mechanisms for the residents to be well informed; and to facilitate improvement of the physical, social, and cultural environment of the neighborhood. POP is educational and advisory in nature.

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 POP and changes therein are classified and reported as follows:

Unrestricted - Those resources over which POP has discretionary control.

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

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

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Expense Allocation

There has been no functional allocation of fund raising expenses. POP does not have a cost allocation plan for indirect expenses.

D. Income Taxes

POP is a not-for-profit organization that is exempt from income taxes under § 501(c)(3) of the Internal Revenue Code and comparable state statutes.

E. Cash and Cash Equivalents

Cash and cash equivalents include deposits in three checking and two savings accounts at three different financial institutions. At times, such deposits may be in excess of FDIC insurance coverage. At year-end, there was insufficient cash on hand to satisfy donor-imposed time or purpose restrictions.

F. Property and Equipment

All purchased property and equipment is valued at cost. Donated fixed assets are valued at their fair market value at the date of contribution. Depreciation is computed using the straight-line method over estimated useful lives of five to 40 years for equipment and buildings.

G. Grants and Contracts

POP's funding includes several cost-reimbursement grants, primarily from the Minneapolis Neighborhood Revitalization Program (NRP). 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 restricted cash. 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, POP will record such disallowance at the time the final assessment is made.

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

H. 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, gifts of long-lived assets, and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

I. Donated Services

No amounts have been reflected in the financial statements for donated services. POP did not track donated services; however, many individuals volunteer their time and perform a variety of tasks that assist POP with specific programs and committee assignments.

2. Prior Period Adjustment

A re-examination of the December 31, 1995, balance for payroll taxes payable showed that the liability was understated by \$37,283. As such, the January 1, 1996, net asset balance has been decreased for the amount of the understatement.

3. Property and Equipment

Property and equipment at December 31, 1996, was as follows:

Land	\$ 7,000
Buildings and improvements	347,457
Office furniture and equipment	<u>74,607</u>
Total	\$ 429,064
Less: accumulated depreciation	<u>(20,835)</u>
Total Property and Equipment	<u><u>\$ 408,229</u></u>

**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

3. Property and Equipment (Continued)

The EZ/EC grant contract provides that title to the Youth Enterprise Center property, which is included in land and buildings above, reverts to the City of Minneapolis upon termination of the grant contract. The City, subject to federal grant requirements, may authorize other actions to be taken with program assets.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 1996, are for the following purposes:

Wendall Phillips Community Federal Credit Union	\$ 15,735
John Heinz Community Development Grant	75,000
Comprehensive Community Policing Strategy	20,000
Bush Foundation	50,000
Youth Enterprise Center	
EZ/EC	232,182
NRP	120,000
NRP	179,423
MHFA Building Capacity	10,000
McKnight Foundation	50,000
Minneapolis Community Development Agency (MCDA) - CDBG Grant	<u>5,000</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 757,340</u></u>

5. Operating Leases

POP leases certain equipment under various noncancelable operating lease commitments with original terms ranging from three to five years. Rental expense related to these leases was \$10,931 for 1996. Future minimum rental payments are as follows:

1997	\$ 10,855
1998	9,887
1999	1,368
2000	<u>192</u>
Total Minimum Lease Payments	<u><u>\$ 22,302</u></u>



**PEOPLE OF PHILLIPS, INC.  
MINNEAPOLIS, MINNESOTA**

6. Building Rent

POP leases office space from Phillips Community Office Center, Inc., a related organization. POP has two leases that are month-to-month for \$2,400 per month and \$3,200 per month for the same space at 1014 East Franklin Avenue. In addition, POP leases a "Lead Safety House" with a one-year lease term ending on January 31, 1997. Rental payments are \$2,250 per quarter, due in advance. POP leases two other "Lead Safety Houses" from the MCDA for \$1 per year. POP made rental payments of \$73,950 for 1996.

7. Long-Term Debt

The following is a summary of the long-term debt transactions for the year ended December 31, 1996.

	Loans	Leases
Payable - January 1	\$ -	\$ 5,353
Additions	120,000	19,039
Deductions	-	(4,083)
Payable - December 31	<u>\$ 120,000</u>	<u>\$ 20,309</u>

Loans Payable

POP entered into a loan and mortgage agreement with the MCDA for \$120,000 for the rehabilitation of the Youth Enterprise Center. The loan will be forgiven on the 15th anniversary of the loan agreement if POP has complied with certain requirements as defined by the loan agreement. The balance at December 31, 1996, is \$120,000 and will remain at that level until forgiveness or repayment conditions are met or activated and payments are made.

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7. Long-Term Debt (Continued)

Capital Leases

POP leased certain copier and phone equipment under capital lease obligations. The leases have been capitalized and included in property and equipment in the amount of \$31,093. Accumulated depreciation on the equipment at December 31, 1996, is \$5,520. The following is a schedule of future minimum lease payments at December 31, 1996:

<u>Year Ended</u> <u>December 31</u>	
1997	\$ 8,008
1998	6,979
1999	5,538
2000	5,538
2001	<u>923</u>
Total minimum lease payments	\$ 26,986
Less: amount representing interest	<u>(6,677)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 20,309</u>

8. Early Access Housing Loan Program

POP has initiated the "Phillips Early Access Loan Program" to be funded by the NRP. The early access loan program consists of loans in the amount of \$739,950: \$259,950 for a "Deferred Loan Fund" for direct loans for home improvements on existing owner-occupied homes within the program area; and \$480,000 for a "Guarantee Fund" used to purchase guaranteed loans made by the servicing agent for home improvements. The program is administered by TCF Bank Minnesota, a federal savings bank, under the guidelines of the program.

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9. Related Organization - Phillips Community Office Center, Inc.

Phillips Community Office Center, Inc., (PCOCI) is a § 501(c)(25) corporation created to hold title and operate an office property at 1014 East Franklin Avenue. PCOCI was incorporated by the American Indian Business Development Corporation, Phillips Community Development Corporation (PCDC), and POP. All incorporators are nonprofit organizations and each is an equal partner in the corporation. PCDC and POP are tenants of the building and, as such, pay rent to PCOCI.

10. Related Party Transactions

On December 4, 1996, the Executive Director made a loan of \$5,000 to POP. There is no supporting documentation as to the terms of the loan. The loan was repaid on December 18, 1996.

11. Subsequent Events

Staff Departures

POP had approximately 30 staff members depart between January and mid-May of 1997 because it was unable to meet payroll requirements.

Internal Revenue Service Seizures

The Internal Revenue Service froze the operating bank account and seized deposits of approximately \$19,196 for nonpayment of payroll and withholding taxes, penalty, and interest on October 29, 1997.

Liens

During 1997, two mechanics liens existed on the Youth Enterprise Center building which is included in POP's fixed assets. Thor Construction has a lien for \$33,446 and North Country Concrete for \$2,500.