AFRICAN DEVELOPMENT CENTER

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005

AFRICAN DEVELOPMENT CENTER

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For the Years Ended December 31, 2006 and 2005

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MAHONEY
ULBRICH
CHRISTIANSEN
RUSS P.A.
CERTIFIED PUBLIC ACCOUNTANTS

30 EAST PLATO BOULEVARD SAINT PAUL, MN 55107-1809
TELEPHONE 651.227.6695 FACSIMILE 651.227.9796

To the Board of Directors
African Development Center
Minneapolis, Minnesota

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of the African Development Center as of December 31, 2006, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the African Development Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the African Development Center's 2005 financial statements and, in our report dated April 21, 2006, we expressed an unqualified opinion on those financial statements.

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 African Development Center as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mahoney Ulbrich
Christiansen Russ P.A.

Saint Paul, Minnesota
April 3, 2007

AFRICAN DEVELOPMENT CENTER

STATEMENT OF FINANCIAL POSITION

December 31, 2006
With Comparative Totals for 2005

	2006	2005
ASSETS		
Cash	$ 142,039	$ 75,431
Cash - restricted	256,567	74,458
	398,606	149,889
Accounts receivable	10,705	7,399
Contributions receivable	312,500	205,000
Loans receivable	985,036	439,868
Prepaid expenses	303	600
Lease deposit	1,110	1,110
Office and computer equipment, less accumulated depreciation of $17,262 in 2006 and $6,699 in 2005	89,086	33,472
Total assets	$ 1,797,346	$ 837,338
LIABILITIES AND NET ASSETS		
Accounts payable	$ 18,703	$ 10,295
Funds held for loans	14,990	13,009
Undisbursed loans	22,882	71,836
UIP loan participations	452,604	225,582
MCCD loan participations	283,536	149,521
NDC loan participations	84,300	18,000
CPED loan participations	36,524	-
Deferred profit on loans	73,635	45,154
Deferred revenue	7,500	8,750
Note payable	250,000	-
Total liabilities	1,244,674	542,147
Unrestricted net assets	205,172	71,191
Temporarily restricted net assets	347,500	224,000
Total net assets	552,672	295,191
Total liabilities and net assets	$ 1,797,346	$ 837,338

See accompanying notes to financial statements.

AFRICAN DEVELOPMENT CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2006
With Comparative Totals for 2005

	2006			
	Unrestricted	Temporarily restricted	Total	2005
Support and revenues:				
Contributions	$ 56,167	$ 425,000	$ 481,167	$ 457,800
Net assets released from:				
Time restrictions	192,500	(192,500)	-	-
Usage restrictions	109,000	(109,000)	-	-
Government grants	133,750	-	133,750	21,250
Program service fees	73,400	-	73,400	107,947
Interest income - loans	18,582	-	18,582	2,260
Interest income - cash accounts	11,816	-	11,816	2,100
Miscellaneous income	1,171	-	1,171	775
Total support and revenues	596,386	123,500	719,886	592,132
Expenses:				
Program services	334,612	-	334,612	186,054
Management and general	93,141	-	93,141	102,487
Fundraising	34,653	-	34,653	37,085
Total expenses	462,405	-	462,405	325,626
Change in net assets	133,981	123,500	257,481	266,506
Net assets - beginning of year	71,191	224,000	295,191	28,685
Net assets - end of year	$ 205,172	$ 347,500	$ 552,672	$ 295,191

See accompanying notes to financial statements.

AFRICAN DEVELOPMENT CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2006
With Comparative Totals for 2005

	2006				
	Program Services	Management and General	Fundraising	Total	2005
Salaries	$ 157,544	$ 48,517	$ 13,549	$ 219,610	$ 197,255
Payroll taxes	13,038	4,015	1,121	18,175	20,274
Employee benefits	13,031	4,013	1,121	18,165	2,673
Total personnel expense	183,614	56,545	15,791	255,950	220,202
Professional fees	11,034	7,458	-	18,492	7,458
Subcontract services	60,044	3,764	4,049	67,857	23,257
Telephone/Internet	8,205	2,527	706	11,438	4,712
Rent and occupancy	25,358	7,809	2,181	35,348	13,920
Equipment expenses	1,063	327	91	1,482	574
Travel and meetings	7,261	2,236	624	10,122	6,745
Office expense	8,845	2,724	761	12,330	5,545
Printing and reproduction	7,129	2,195	613	9,937	11,533
Publications	1,577	486	136	2,198	2,061
Registrations and conferences	1,740	536	150	2,425	3,264
Insurance	1,108	341	95	1,544	1,902
Program expenses	1,980	-	-	1,980	-
Board and annual meeting	5,354	3,273	3,500	12,127	7,233
Marketing	822	-	5,141	5,963	11,378
Interest	1,900	585	163	2,649	-
Depreciation	7,578	2,334	652	10,563	4,817
Miscellaneous	-	-	-	-	1,025
	$ 334,612	$ 93,141	$ 34,653	$ 462,405	$ 325,626

See accompanying notes to financial statements.

AFRICAN DEVELOPMENT CENTER

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006
With Comparative Totals for 2005

Increase (Decrease) in Cash Flows

	2006	2005
Cash flows from operating activities:		
Change in net assets	$ 257,481	$ 266,506
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	10,563	4,817
Accounts receivable	(3,306)	(7,039)
Contributions receivable	(107,500)	(205,000)
Prepaid expenses	297	(543)
Accounts payable	8,408	(441)
Accrued expenses	-	(5,516)
Deferred revenue	(1,250)	8,750
Net cash from operating activities	164,693	61,534
Cash flows from investing activities:		
Loans issued	(775,649)	(345,330)
Collections on loans	150,198	22,452
Funds received for loan participations, net	525,652	406,112
Purchase of office equipment	(66,177)	(19,949)
Net cash from investing activities	(165,976)	63,285
Cash flows from financing activities:		
Proceeds of note payable	250,000	-
Net cash from financing activities	250,000	-
Net increase in cash	248,717	124,819
Cash - beginning of year	149,889	25,070
Cash - end of year	$ 398,606	$ 149,889
Supplemental cash flow information:		
Cash paid for interest expense	$ 1,389	$ -

See accompanying notes to financial statements.

1. ORGANIZATION

The African Development Center (ADC) is a non-profit organization founded in 2002. ADC is located in Minneapolis, Minnesota. ADC provides services to individuals in the Twin Cities metropolitan area of Minnesota.

The program includes:

Business development – ADC provides technical assistance in the area of business planning to new and existing African business owners and business loans.

Home Ownership – ADC promotes sustainable home ownership for low and moderate income African people in Minnesota.

Financial literacy – ADC provides materials and programs to assist new and existing African immigrants understand American financial systems and services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation - Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that are permanently restricted by donors for specific purposes. ADC has no permanently restricted net assets.

Concentration of Credit Risk - ADC maintains its cash at two financial institutions. At December 31, 2006 the balance exceeded federally insured limits at both institutions. ADC has not experienced any losses as a result of these deposits.

(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Office and Computer Equipment - Office and computer equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Loans Receivable and Allowance for Loan Losses - Loans are recorded when closed. Loans closed and not yet funded to the borrower are reported as undisbursed loans. Interest and profit are recorded as revenue over the term of the loan.

The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the entire principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Management has determined that no allowance is necessary at December 31, 2006.

Investment in LLC - ADC owns a 25% interest in MGM Community Partners, LLC. This investment is carried at cost ($0).

Promises to Give - Contributions are recognized when the donor makes an unconditional promise to give to ADC. Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Government Grants and Contracts - Government grants and contracts are considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as deferred revenue.

Contributed Services - Contributed services are recorded as contributions at their fair value when the service creates or enhances a nonfinancial asset or the service requires specialized skills, is provided by an individual possessing those skills and would need to be purchased if not provided by donation.

Functional Allocation of Expenses - Expenses have been allocated among program, management and general and fundraising classifications based upon direct expenditures and estimates made by ADC's management.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Total Column - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with ADC's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

Income Taxes – ADC is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes.

3. LOANS RECEIVABLE

ADC has received approval to participate in the Urban Initiatives Loan Program (UIP) sponsored by the State of Minnesota for $500,000. The program assists minority-owned and operated businesses and others that create jobs in low-income areas of the Twin Cities metropolitan area. Loans may be made for a maximum of $25,000 (up to $50,000 if a private lender is participating in the loan). Under the UIP program, ADC services the loans and repays UIP as loans are collected. Interest and profit earned is retained by ADC.

The Minneapolis Consortium of Community Developers (MCCD), the Neighborhood Development Center (NDC), and the Minneapolis Community Planning and Economic Development Department (CPED participate in lending with ADC and have participated in a portion of the loans. ADC services the loans and repays these organizations as loans are collected.

Loans receivable consist of the following:

	2006	2005	Number of loans in 2006
Profit-based financing loans	$ 730,902	$ 392,411	41
Regular loans	189,023	43,000	13
Wells Fargo loans	51,926	-	6
Goodwill loans	10,675	2,957	8
ADC and other loans	2,510	1,500	2
Total loans receivable	$ 985,036	$ 439,868	

3. LOANS RECEIVABLE (Continued)

Profit-based financing loans – ADC helps Muslim and non-Muslim borrowers finance their business using a profit-based financing system. ADC agrees to buy business equipment or inventory on behalf of the borrower and then re-sells the equipment or inventory to the borrower at the original cost plus a profit. The uncollected profit has been deferred and is recorded as revenue over the term of the loan. The loans are repayable in monthly installments over 36 to 60 month terms. The loans are secured by an interest in vehicles, equipment or inventory of the borrower.

Regular loans – Interest bearing loans with interest at 10%. The loans are repayable in monthly installments over 36 to 60 months. The loans are secured by an interest in vehicles, equipment or inventory of the borrower.

Goodwill loans – Interest free cash loans payable over 12 to 24 months for working capital purposes. The goodwill loans are limited to $2,000, are unsecured and are made in conjunction with either profit-based financing or regular loans.

Funds received to make loans and loan repayments are classified as restricted cash.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are scheduled to be received in 2007.

5. INVESTMENT IN LLC

ADC has a 25% interest in MGM Community Partners, LLC (MGM). MGM is the managing member and owns a 51% interest in Midtown Global Market, LLC (Midtown).

Midtown renovated a portion of the former Sears Building on Lake Street in Minneapolis, Minnesota for approximately $18,000,000. The space is being used as a global marketplace. Tenants moved into the space in 2006.

6. NOTE PAYABLE

ADC entered into an agreement with the Wells Fargo Community Development Corporation for a $250,000 EQ2 loan. The proceeds of the loan are to be used to make loans for community development purposes. The loan has an initial fixed interest rate equal to 2% for the first ten years of the loan and thereafter a fixed interest rate equal to the greater of 2% or the Treasury Rate minus 3.5% determined as of the tenth anniversary of the date of loan, until the loan is fully paid. Interest is payable quarterly.

The outstanding principal balance of the loan and accrued interest shall all be due and payable June 21, 2016. If prior to the maturity date ADC delivers to Wells Fargo a written request for a two year extension, then the term of the loan shall be extended for an additional two years.

7. NET ASSETS

Temporarily restricted net assets are available for use in future periods for:

	2006	2005
Homeownership training	$ 100,000	$ 4,000
Staffing of two business consultants	50,000	100,000
General operating support	87,500	120,000
Technical and technology assistance	110,000	-
	$ 347,500	$ 224,000

8. LEASE COMMITMENTS

ADC leases office space and equipment under non-cancelable leases. The office lease requires monthly payments for rent plus a share of building operating expenses. The office lease expires on January 31, 2011. Rent expense was $30,198 and $10,478 during the years ended December 31, 2006 and 2005.

The future minimum lease payments are as follows:

2007	$ 18,228
2008	16,934
2009	16,561
2010	17,058
2011	1,464
	$ 70,245

9. CONCENTRATIONS

2006 - Revenues from three foundations made up 55% of total revenues. Revenues from the individual foundations made up 21%, 21% and 13% of total revenues, respectively.

2005 - Revenues from four donors accounted for 56% of total revenues. Revenues from the individual foundations made up 25%, 19% and 12% of total revenues, respectively.

10. RELATED PARTY TRANSATIONS

The Board of Directors annually discloses any conflicts of interest with ADC.

A member of the Board of Directors is an officer at Wells Fargo Bank, which has provided ADC with a note payable (see Note 6). ADC also maintains a checking and savings account at Wells Fargo Bank.

A member of the Board of Directors is an attorney with a law firm used by ADC.

A member of the Board of Directors is affiliated with the owner of the building ADC is located in.

A company owned by a member of the Board of Directors has received a loan from ADC.