AFRICAN DEVELOPMENT CENTER

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2004

AFRICAN DEVELOPMENT CENTER

FINANCIAL STATEMENTS

For the Years Ended December 31, 2005 and 2004

Table of Contents

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, 2005, 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.

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, 2005, 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.

The 2004 financial statements were reviewed by us, and our report thereon, dated February 11, 2005, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

Mahoney Ulbrich Christiansen Russ P.A.

Saint Paul, Minnesota
April 21, 2006

AFRICAN DEVELOPMENT CENTER

STATEMENT OF FINANCIAL POSITION

December 31, 2005
(With Comparative Totals for 2004)

	2005 (Audited)	2004 (Reviewed)
ASSETS		
Cash	$ 75,431	$ 7,570
Cash - restricted	74,458	17,500
	149,889	25,070
Accounts receivable	7,399	360
Contributions receivable	205,000	-
Loans receivable	439,868	-
Prepaid expenses	600	57
Lease deposit	1,110	1,110
Office and computer equipment, less accumulated depreciation of $6,699 in 2005 and $1,882 in 2004	33,472	18,340
Total assets	$ 837,338	$ 44,937
LIABILITIES AND NET ASSETS		
Accounts payable	$ 10,295	$ 10,736
Accrued payroll and related	-	5,516
Funds held for loans	13,009	-
Undisbursed loans	71,836	-
UIP loan participations	225,582	-
MCCD loan participations	149,521	-
NDC loan participations	18,000	-
Deferred profit on loans	45,154	-
Deferred revenue	8,750	-
Total liabilities	542,147	16,252
Unrestricted net assets	71,191	11,185
Temporarily restricted net assets	224,000	17,500
Total net assets	295,191	28,685
Total liabilities and net assets	$ 837,338	$ 44,937

See accompanying notes to financial statements.

AFRICAN DEVELOPMENT CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2005
(With Comparative Totals for 2004)

	2005			
	Unrestricted	Temporarily restricted	Total (Audited)	2004 (Reviewed)
Revenues:				
Contributions	$ 77,800	$ 380,000	$ 457,800	$ 166,244
Net assets released from:				
Time restrictions	140,000	(140,000)	-	-
Usage restrictions	33,500	(33,500)	-	-
In kind contributions	-	-	-	8,458
Government grants	21,250	-	21,250	12,500
Program service fees	107,947	-	107,947	29,457
Interest income - loans	2,260	-	2,260	-
Interest income - cash accounts	2,100	-	2,100	-
Miscellaneous income	775	-	775	-
Total revenues	385,632	206,500	592,132	216,659
Expenses:				
Program services	186,054	-	186,054	140,140
Management and general	102,487	-	102,487	30,645
Fundraising	37,085	-	37,085	17,189
Total expenses	325,626	-	325,626	187,974
Change in net assets	60,006	206,500	266,506	28,685
Net assets - beginning of year	11,185	17,500	28,685	-
Net assets - end of year	$ 71,191	$ 224,000	$ 295,191	$ 28,685

See accompanying notes to financial statements.

AFRICAN DEVELOPMENT CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2005
(With Comparative Totals for 2004)

	2005				
	Program Services	Management and General	Fundraising	Total (Audited)	2004 (Reviewed)
Salaries	$ 124,083	$ 64,303	$ 8,869	$ 197,255	$ 77,566
Payroll taxes	12,753	6,609	912	20,274	8,002
Employee benefits	1,681	871	120	2,673	-
Total personnel expense	138,518	71,783	9,901	220,202	85,568
Professional fees	-	7,458	-	7,458	4,552
Subcontract services	8,638	1,685	12,934	23,257	62,525
Telephone	2,964	1,536	212	4,712	5,460
Rent and occupancy	8,756	4,538	626	13,920	9,705
Equipment expenses	361	187	26	574	1,677
Travel and meetings	4,243	2,199	303	6,745	801
Office expense	3,488	1,808	249	5,545	5,244
Printing and reproduction	7,255	3,760	519	11,533	2,951
Publications	1,296	672	93	2,061	571
Registrations and conferences	2,053	1,064	147	3,264	4,652
Insurance	1,196	620	86	1,902	-
Program expenses	-	-	-	-	150
Board and annual meeting	460	3,273	3,500	7,233	135
Marketing	3,150	-	8,228	11,378	800
Depreciation	3,030	1,570	217	4,817	1,882
Miscellaneous	645	334	46	1,025	1,301
	$ 186,054	$ 102,487	$ 37,085	$ 325,626	$ 187,974

See accompanying notes to financial statements.

AFRICAN DEVELOPMENT CENTER

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2005
(With Comparative Totals for 2004)

Increase (Decrease) in Cash Flows

	2005 (Audited)	2004 (Reviewed)
Cash flows from operating activities:		
Change in net assets	$ 266,506	$ 28,685
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	4,817	1,882
In-kind contribution of office equipment	-	(8,458)
Accounts receivable	(7,039)	(360)
Contributions receivable	(205,000)	-
Prepaid expenses	(543)	(57)
Lease deposit	-	(1,110)
Accounts payable	(441)	10,736
Accrued expenses	(5,516)	5,516
Deferred revenue	8,750	-
Net cash from operating activities	61,534	36,834
Cash flows from investing activities:		
Loans issued	(345,330)	-
Collections on loans	22,452	-
Funds received for loan participations, net	406,112	-
Purchase of office equipment	(19,949)	(11,764)
Net cash from investing activities	63,285	(11,764)
Net increase in cash	124,819	25,070
Cash - beginning of year	25,070	-
Cash - end of year	$ 149,889	$ 25,070

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 Minneapolis and Saint Paul, 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 one financial institution. At December 31, 2005 the balance exceeded federally insured limits. 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 approved by ADC 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, 2005.

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, 2004, 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) and the Neighborhood Development Center (NDC) participate in lending with ADC and have participated in a portion of the loans. ADC services the loans and repays MCCD or NDC as loans are collected.

Loans receivable consist of the following:

		Number of loans
Profit-based financing loans	$ 392,411	19
Regular loans	43,000	2
Goodwill loans	2,957	3
ADC loans	1,500	1
Total loans receivable	$ 439,868	
Funding sources:		
UIP loan participations	$ 225,582	
MCCD loan participations	149,521	
NDC loan participations	18,000	
Deferred profit on loans	45,154	
Total funding sources	$ 438,257	

(Continued)

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 the following years:

2006	$ 155,000
2007	50,000
Later years	-
	$ 205,000

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 is renovating a portion of the former Sears Building on Lake Street in Minneapolis, Minnesota. The space will be used to operate a global marketplace. The space is under construction at December 31, 2005, tenants are expected to move in during 2006. The estimated cost of the renovation is $18,000,000.

6. NET ASSETS

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

	2005	2004
Homeownership training	$ 4,000	$ 17,500
Staffing of two business consultants	100,000	-
General operating support	120,000	-
	$ 224,000	$ 17,500

7. 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 $14,405 and $7,650 during the years ended December 31, 2005 and 2004.

The future minimum lease payments are as follows:

2006	$ 19,000
2007	18,200
2008	16,900
2009	16,500
2010	17,000
Later years	1,500
	$ 89,100

8. CONCENTRATIONS

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

2004 - Revenues from four donors accounted for 63% of total revenues. One of the donors provided 25% of revenues. The other three provided a combined 38% of revenues.