

AFRICAN DEVELOPMENT CENTER

**CONSOLIDATED
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
DECEMBER 31, 2009**

AFRICAN DEVELOPMENT CENTER
CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities and Changes in Net Assets	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6
Consolidating Financial Statements:	
Consolidating Statement of Financial Position	18
Consolidating Statement of Activities and Changes in Net Assets	19



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To the Board of Directors
African Development Center
Minneapolis, Minnesota

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statement of financial position of the African Development Center (a nonprofit organization) and subsidiaries as of December 31, 2009, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the African Development Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the African Development Center's 2008 financial statements and, in our report dated April 2, 2009, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the African Development Center and subsidiaries as of December 31, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 18 and 19 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Saint Paul, Minnesota
May 27, 2010

*Mahoney Ulbrich
Christiansen Russ P.A.*

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash	\$ 424,502	\$ 258,066
Temporary cash investment	154,800	52,949
Accounts receivable	4,760	9,138
Current portion of contributions receivable	125,000	148,000
Current portion of loans receivable, net of allowance	604,487	450,766
Prepaid expenses and lease deposit	2,195	992
Total current assets	<u>1,315,744</u>	<u>919,911</u>
Cash - restricted for loan programs	516,764	505,181
Cash - construction escrow	157,482	-
Contributions receivable, less current portion, net of allowance	-	75,000
Loans receivable, less current portion	1,349,415	1,033,136
Land, building and equipment, net	1,688,383	101,532
Finance fees, net	5,941	-
Total assets	<u>\$ 5,033,729</u>	<u>\$ 2,634,760</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 48,811	\$ 19,555
Construction payable	255,089	-
Contract advances	13,500	13,500
Funds held for loans	46,602	24,749
Deposit held for loan purchase	-	25,000
Accrued lease expense	18,522	-
Accrued interest expense	2,667	12,113
Tenant security deposits	5,705	-
Current portion of loan participations	299,817	224,655
Current portion of Due to State of Minnesota	171,459	142,963
Current portion of long-term debt	150,000	-
Total current liabilities	<u>1,012,172</u>	<u>462,535</u>
Loan participations, less current portion	791,540	582,784
Due to State of Minnesota, less current portion	256,668	257,088
Long-term debt, less current portion	1,970,000	750,000
Total liabilities	<u>4,030,380</u>	<u>2,052,407</u>
Unrestricted net assets	410,349	298,853
Temporarily restricted net assets	593,000	283,500
Total net assets	<u>1,003,349</u>	<u>582,353</u>
Total liabilities and net assets	<u>\$ 5,033,729</u>	<u>\$ 2,634,760</u>

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

	2009			2008
	Unrestricted	Temporarily restricted	Total	
Support and revenues:				
Contributions	\$ 372,189	\$ 218,000	\$ 590,189	\$ 499,294
Net assets released from:				
Time restrictions	148,000	(148,000)	-	-
Usage restrictions	60,500	(60,500)	-	-
Government grants	74,500	-	74,500	33,750
Program service fees	92,056	-	92,056	104,300
In kind contributions	45,372	-	45,372	-
Rental revenue	43,078	-	43,078	-
Interest income - loans	45,624	-	45,624	46,905
Interest income - cash accounts	12,157	-	12,157	18,074
Miscellaneous income	2,035	-	2,035	490
Total support and revenues	895,511	9,500	905,011	702,813
Expenses:				
Program services	740,517	-	740,517	658,339
Management and general	220,490	-	220,490	136,834
Fundraising	43,509	-	43,509	53,754
Total expenses	1,004,515	-	1,004,515	848,927
Change in net assets - operating	(109,004)	9,500	(99,504)	(146,114)
Contributions for loans	50,000	250,000	300,000	-
Contributions for building	170,500	50,000	220,500	-
Total change in net assets	111,496	309,500	420,996	(146,114)
Net assets - beginning of year	298,853	283,500	582,353	728,467
Net assets - end of year	\$ 410,349	\$ 593,000	\$ 1,003,349	\$ 582,353

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

	2009				2008
	Program Services	Management and General	Fundraising	Total	
Salaries	\$ 293,779	\$ 76,493	\$ 22,149	\$ 392,421	\$ 434,676
Payroll taxes	22,029	5,735	1,666	29,430	32,548
Employee benefits	24,567	4,793	1,352	30,712	28,680
Total personnel expense	340,375	87,021	25,167	452,563	495,904
Professional fees	20,051	24,751	15,160	59,962	44,591
Subcontract services	46,678	17,241	-	63,919	32,073
Telecommunications	15,181	1,939	562	17,682	11,167
Rent and occupancy	32,925	5,814	1,684	40,423	42,620
Early exit of lease	-	39,048	-	39,048	-
Equipment expenses	3,849	512	-	4,361	6,138
Travel and entertainment	13,136	931	-	14,067	17,821
Office expenses	18,101	2,454	711	21,266	12,577
Printing and reproduction	22,195	3,549	-	25,744	17,618
Dues and subscriptions	1,234	399	-	1,633	752
Meetings and training	7,324	346	-	7,670	14,711
Insurance	6,912	780	226	7,918	5,885
Loan and loan-related expenses	16,770	-	-	16,770	13,304
Board and annual meeting	2,790	698	-	3,488	8,596
Marketing and promotions	6,491	1,558	-	8,049	11,022
Interest	41,772	8,364	-	50,136	15,904
Provision for loan losses, net	51,383	-	-	51,383	73,573
Depreciation and amortization	39,465	10,415	-	49,880	23,786
Building operations	26,637	7,712	-	34,349	-
Utilities	7,942	2,300	-	10,242	-
Property taxes	14,063	4,072	-	18,135	-
Miscellaneous	5,242	585	-	5,827	885
	\$ 740,517	\$ 220,490	\$ 43,509	\$ 1,004,515	\$ 848,927

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

Increase (Decrease) in Cash Flows

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 420,996	\$ (146,114)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	49,880	23,786
Loans written off, net of participations	5,000	43,294
Allowance for loan losses	46,383	30,279
Expenses related to early exit of lease	39,048	-
Contributions received for loans and building	(565,872)	-
Changes in operating assets and liabilities:		
Accounts receivable	4,378	(5,113)
Contributions receivable	148,000	(13,000)
Prepaid expenses and lease deposit	(1,203)	3
Accounts payable	29,256	3,171
Contract advances	-	6,750
Accrued interest	(9,446)	10,863
Tenant security deposits	5,705	-
Net cash from operating activities	<u>172,125</u>	<u>(46,081)</u>
Cash flows from investing activities:		
Loans issued	(884,512)	(732,442)
Collections on loans	379,391	344,074
Change in cash - restricted for loan programs	(11,583)	(355,520)
Deposit held for loan purchase	(25,000)	25,000
Purchase of temporary cash investments	(101,851)	(2,306)
Purchase of land, building, and equipment	(1,513,618)	(39,247)
Net cash from investing activities	<u>(2,157,173)</u>	<u>(760,441)</u>
Cash flows from financing activities:		
Funds received from UIP and others for loan participations, net	317,585	202,861
Proceeds of long-term debt	1,370,000	500,000
Contributions received for loans and building	470,500	-
Proceeds of notes payable	176,614	-
Payments on notes payable	(176,614)	-
Payment of finance fees	(6,600)	-
Net cash from financing activities	<u>2,151,485</u>	<u>702,861</u>
Net increase (decrease) in cash	166,436	(103,661)
Cash - beginning of year	<u>258,066</u>	<u>361,727</u>
Cash - end of year	<u>\$ 424,502</u>	<u>\$ 258,066</u>
Supplemental cash flow information:		
Cash paid for interest expense	<u>\$ 67,190</u>	<u>\$ 5,000</u>
Purchase of land, building and equipment included in construction payable	<u>\$ 255,089</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

1. ORGANIZATION

The African Development Center (ADC) is a non-profit organization founded in 2002. ADC provides services to individuals in the Minneapolis/Saint Paul area and outstate Minnesota. ADC's operations are supported by contributions, government grants, program service fees and interest earned on loans.

Activities include:

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

During 2009, ADC purchased a building located at 1927-1929 5th Street South in Minneapolis, Minnesota (the Riverside Building) to be used as its new office and training center. The building has excess space that is being rented to office tenants and a retail tenant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include African Development Center, ADC Financial Services, Inc., and ADC Commercial Real Estate, Inc. Both consolidated corporations are wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

ADC Financial Services (ADC FS), Inc. is a community home lender offering mortgage originations with a focus on clients in emerging markets. As of December 31, 2009, ADC Financial Services was in its start-up phase.

ADC Commercial Real Estate (ADC CRE), Inc. was formed in 2009. The corporation owns and operates the Riverside building.

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.

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

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

Reclassifications – Certain reclassifications have been made to the prior year financial statements to be consistent with the current year classifications.

Financial Statement Presentation - Net assets, revenues and support are classified based on the presence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- 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. Balances may, at times, exceed federally insured limits. ADC has not experienced any losses as a result of these deposits. As of December 31, 2009, deposits exceeded the federally insured limit by \$688,767.

Cash Equivalents - For purposes of preparing the statement of cash flows, investments with an original maturity of three months or less are considered cash equivalents. Investments with an original maturity date of greater than three months are considered temporary cash investments. The temporary cash investments consist of bank certificates of deposit.

Land, Building and Equipment - Land, building and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Impairment - The impairment of an asset is recognized when the carrying amount of the asset exceeds the total undiscounted future cash flows expected from the use and eventual disposal of the asset. The impairment recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value. To date, management has determined that no impairment of long-lived assets exists.

Finance Fees - Finance fees are amortized using the straight-line method over the term of the related debt.

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

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

Loans Receivable and Allowance for Loan Losses - Loans are recorded when closed. Loans closed and not yet funded are included in funds held for loans. Amounts provided by UIP and participating lenders are presented as liabilities.

Loans receivable are stated at unpaid balances, less an allowance for loan losses. Allowances are only established on ADC's portion of loan balances. Allowances are not established on the portion of loans held by UIP or other participating lenders.

A portion of ADC's loans utilize the Muslim profit-based financing system. Loans receivable include uncollected profit, which has been deferred and included in the loan participation liability account.

Past due status of loans is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. Loans are charged against the allowance for loan losses when management believes that collection 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 evaluation of the collectibility of loans. The evaluation takes 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.

Interest income is recognized over the term of the loan when received. Profit on profit-based loans is recorded as revenue over the term of the loan.

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

Contributions - Contributions are recognized when the donor makes an unconditional promise to give. Contributions with donor-imposed conditions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. Contributions with donor-imposed restrictions that expire in the same fiscal year the contribution is recognized are reported as unrestricted net assets.

Contributions of cash or other assets to be used to acquire property or equipment are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time the property or equipment is purchased. ADC does not imply a time restriction on the gifts of long lived assets.

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 contract advances.

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

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

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, and is provided by an individual possessing those skills which would need to be purchased if not provided by donation. ADC received in-kind legal services for the purchase of the building valued at \$45,372 in 2009 which were capitalized.

Program Service Fees – Program service fees are recorded when received, which approximates when the service is performed.

Rental Revenues – Rental revenues are recorded in accordance with the lease terms.

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.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with ADC's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Income Taxes - ADC is classified as a tax-exempt organization under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code and is exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code and is subject to income taxes only on net unrelated business income. ADC did not have any unrelated business income in 2009 or 2008.

ADC Financial Services, Inc., and ADC Commercial Services are taxable corporations and file separate income tax returns.

The companies adopted provisions of FASB Accounting Standards Codification (ASC) 740 relating to uncertainty in income taxes during 2009. Adoption of the provision of ASC 740 did not impact the financial statements as management believes the Society does not have any uncertain tax positions.

Federal and state tax authorities generally have the right to examine and audit the previous three years of income tax returns. The companies are not currently under examination by any taxing jurisdiction. Any interest or penalties assessed is reported in management and general expenses. For the years ended December 31, 2009 and 2008, there are no interest or penalties recorded in the accompanying financial statements.

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

3. **REVENUE CONCENTRATIONS**

2009 - Revenue from the Community Development Financial Institutions Fund (CDFI) (42%) and a foundation (12%) accounted for 54% of total support and revenue.

2008 - Revenue from three foundations accounted for 55% of total support and revenue. Revenues from the individual foundations made up 32%, 12% and 11% of total revenues, respectively.

4. **CONTRIBUTIONS RECEIVABLE**

Contributions receivable are due in 2010.

5. **LOANS RECEIVABLE**

Loans receivable consist of the following:

	2009	2008	Number of loans at December 31, 2009
Profit-based financing loans	\$1,378,703	\$1,025,209	65
Conventional loans	647,839	483,208	36
Goodwill loans	200	1,505	1
ADC and other loans	3,822	4,259	1
Allowance for loan losses	(76,662)	(30,279)	
	1,953,902	1,483,902	103
Less current portion	(604,487)	(450,766)	
	<u>\$1,349,415</u>	<u>\$1,033,136</u>	

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 is deferred and 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 vehicles, equipment or inventory of the borrower.

Conventional loans – Interest bearing loans repayable in monthly installments over 36 to 60 months. The loans are secured by vehicles, equipment or inventory of the borrower.

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

5. **LOANS RECEIVABLE (Continued)**

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 conventional loans.

Changes not allowance for loan losses consist of the following:

	2009	2008
Beginning balance	\$ 30,279	\$ -
Provision for loan losses	51,383	75,000
Loans written off	(5,000)	(46,148)
Recoveries	-	1,427
	\$ 76,662	\$ 30,279

Allowances are only established on ADC's portion of loan balances. Allowances are not established on the portion of loans held by UIP or other participating lenders.

6. **DUE TO STATE OF MINNESOTA (UIP)**

ADC participates in the Urban Initiatives Loan Program (UIP) sponsored by the State of Minnesota with a loan limit of up to \$750,000. 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. UIP loan capital is provided to ADC on a non-recourse basis. ADC is not obligated to repay the State if the borrower defaults.

	2009	2008
Current portion	\$ 171,459	\$ 142,963
Long-term portion	256,668	257,088
Total UIP	\$ 428,127	\$ 400,051

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

7. **LOAN PARTICIPATIONS**

ADC participates in loans with the Metropolitan Consortium of Community Developers (MCCD), the Neighborhood Development Center (NDC), and the Minneapolis Community Planning and Economic Development Department (CPED). ADC services the loans and repays these organizations as loans are collected.

Loan participations and deferred profit consist of the following:

	2009	2008
MCCD loan participations	\$ 138,116	\$ 143,942
NDC loan participations	98,581	90,122
CPED loan participations	732,806	480,519
Deferred profit on loans	121,854	92,856
	1,091,357	807,439
Less current portion	(299,817)	(224,655)
	\$ 791,540	\$ 582,784

8. **PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	2009	2008	Estimated useful lives (in years)
ADC:			
Computers and equipment	\$ 151,850	\$ 98,443	3 - 7
Leasehold improvements	-	49,643	5
Building acquisition costs	-	16,635	-
ADC Commercial Real Estate:			
Land	157,724	-	-
Building	753,313	-	30
Building improvements	708,789	-	30
	1,771,676	164,721	
Less accumulated depreciation	(83,293)	(63,189)	
	\$ 1,688,383	\$ 101,532	

Total interest in 2009 was \$64,856 of which \$14,720 has been capitalized into the cost of the building.

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

9. 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). ADC has no obligation to contribute funds to MGM.

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

10. LONG-TERM DEBT

Notes payable consists of the following:

	2009	2008
ADC:		
Wells Fargo EQ2 loan	\$ 250,000	\$ 250,000
M & I EQ2 loan	500,000	500,000
ADC CRE:		
MMCDC New Markets Fund - senior loan	805,947	-
MMCDC New Markets Fund - subordinate loan	214,053	-
Park Midway Bank	150,000	-
City of Minneapolis	200,000	-
	2,120,000	750,000
Less current portion	(150,000)	-
	\$1,970,000	\$ 750,000

ADC:

Wells Fargo EQ2 loan – ADC entered into an agreement with the Wells Fargo Community Development Corporation for a \$250,000 EQ2 loan on June 5, 2006. 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 are due 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.

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

10. **LONG-TERM DEBT (Continued)**

M & I EQ2 loan – ADC entered into an agreement with M & I Bank for a \$500,000 EQ2 loan on March 31, 2008. The proceeds of the loan are to be used to make loans for community development purposes. The loan has an interest rate equal to 3%. Interest is payable quarterly. The outstanding principal balance of the loan and accrued interest are due March 31, 2013. The maturity date may be extended through March 31, 2018 with the consent of the lender.

ADC CRE:

MMCDC New Markets Fund - First mortgage, senior loan note dated March 3, 2009, payable to MMCDC (Midwest Minnesota Community Development Corporation) New Markets Fund XVIII, LLC with fixed interest of 4.967% with one rate reset, as described in the note, to occur on the three-year anniversary date of the note. Interest is payable in monthly installments beginning April 1, 2009. Principal and interest are due on November 5, 2015. Secured by the Riverside Building and all leases and rents with respect to the property.

MMCDC New Markets Fund - First mortgage, subordinate loan note dated March 3, 2009, payable to MMCDC New Markets Fund XVIII, LLC with fixed interest at 4.967% with one rate reset, as described in the note, to occur on the three-year anniversary of the note. Interest is payable in monthly installments beginning April 1, 2009. Principal and interest are due on November 5, 2038. Secured by the Riverside Building and all leases and rents with respect to the property.

Park Midway Bank - Second mortgage payable to Park Midway Bank with interest at 2%, payable on demand. If no demand is met, 12 monthly interest payments are due beginning April 3, 2009. Beginning April 3, 2010, 107 principal and interest payments of \$1,396 are due with one final principal and interest payment of \$16,165 due March 3, 2019. Secured by the Riverside Building and assignment of all rents.

City of Minneapolis - Third mortgage payable to City of Minneapolis dated September 3, 2009, with an interest rate of 4% until the fourth anniversary of the date of the note, at which time interest will adjust to the higher of (i) 4% or (2) the prime rate of interest minus .25%. Interest-only payments are due annually beginning September 3, 2010. In addition to the interest only payments, ADC CRE will make principal payments each September 3 during the term of the note in an amount equal to 50% of the funds cumulatively collected by ADC CRE and ADC through any charitable donation made during the previous 12 months. Principal and interest are due on September 3, 2016. Secured by the Riverside Building and assignment of all rents.

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

10. **LONG-TERM DEBT (Continued)**

Maturities of long-term debt are as follows:

2010	\$ 150,000
2013	500,000
After 2014	<u>1,470,000</u>
	<u><u>\$2,120,000</u></u>

11. **LINE OF CREDIT**

ADC has a \$100,000 line of credit from Western Bank for general operating purposes. The line of credit matures January 7, 2010 (subsequently extended to April 2011, see Note 16). The interest rate is 1% over the Wall Street Journal Prime Rate. There was no balance outstanding at December 31, 2009. Advances are secured by accounts receivable, equipment and general intangibles.

12. **COMMERCIAL RENT REVENUE**

ADC utilizes approximately 49% of the Riverside Building for its programs. The remaining space is available for lease for office (43%) and retail (8%) uses. There are eleven office suites and one retail suite. Lease terms for the office suites range from month-to-month to three years. The retail space is vacant at December 31, 2009.

Future minimum lease payments, for leases with original terms of one year or more, are as follows:

2010	\$ 32,670
2011	26,901
2012	<u>18,522</u>
	<u><u>\$ 78,093</u></u>

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

13. **LEASE COMMITMENTS PAYABLE**

ADC leases office space in two locations under non-cancelable leases. The office lease in Minneapolis requires monthly payments for rent plus a share of building operating expenses. This lease expires on January 31, 2011. The office lease in Mankato requires monthly payments for rent plus a share of building operating expenses. This lease expires on July 31, 2010. Rent expense was \$40,491 and \$30,264 during the years ended December 31, 2009 and 2008.

In October 2009 ADC moved its Minneapolis office into the building purchased by ADC CRE. Expenses related to the exit of the lease have been accrued. Leasehold improvements of \$20,526 and future lease obligations of \$18,522 were expensed. Management is currently in negotiations to terminate the office lease.

14. **NET ASSETS**

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

	<u>2009</u>	<u>2008</u>
Emerging market pilot program	\$ 75,000	\$ 150,000
East metro activities	40,000	-
Renovation of office building - time	50,000	-
CDFI - operating	178,000	-
CDFI - loans	250,000	
General operating support	-	73,000
Program support	-	60,500
	<u>\$ 593,000</u>	<u>\$ 283,500</u>

15. **RELATED PARTY TRANSACTIONS**

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 10). 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 currently in negotiations with to terminate its lease commitment.

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

(Continued)

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

16. **SUBSEQUENT EVENTS**

In March 2010, ADC was awarded a \$250,000 Wells Fargo EQ2 loan.

Effective April 9, 2010, ADC renewed its line of credit with Western Bank and increased the limit to \$150,000. The line of credit matures April 9, 2011.

Management has evaluated subsequent events through May 27, 2010, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.

SUPPLEMENTAL INFORMATION

AFRICAN DEVELOPMENT CENTER

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2009

	ADC	ADC Financial Services	ADC Commercial Real Estate	Eliminations	Total
ASSETS					
Current assets:					
Cash	\$ 402,412	\$ 3,006	\$ 19,084	\$ -	\$ 424,502
Temporary cash investment	-	54,261	100,539	-	154,800
Accounts receivable	3,026	121	1,613	-	4,760
Contributions receivable	125,000	-	-	-	125,000
Current portion of loans receivable, net of allowance	604,487	-	-	-	604,487
Prepaid expenses and lease deposit	2,195	-	-	-	2,195
Total current assets	<u>1,137,120</u>	<u>57,388</u>	<u>121,236</u>	<u>-</u>	<u>1,315,744</u>
Cash - restricted for loan programs	516,764	-	-	-	516,764
Cash - construction escrow	-	-	157,482	-	157,482
Loans receivable, less current portion, net of allowance	1,349,415	-	-	-	1,349,415
Land, building and equipment, net	90,353	-	1,598,030	-	1,688,383
Finance fees, net	-	-	5,941	-	5,941
Investment in affiliates	298,143	-	-	(298,143)	-
Total assets	<u>\$ 3,391,795</u>	<u>\$ 57,388</u>	<u>\$ 1,882,689</u>	<u>\$ (298,143)</u>	<u>\$ 5,033,729</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable	\$ 39,834	\$ -	\$ 8,977	\$ -	\$ 48,811
Construction payables	-	-	255,089	-	255,089
Contract advances	13,500	-	-	-	13,500
Funds held for loans	46,602	-	-	-	46,602
Accrued lease expense	18,522	-	-	-	18,522
Accrued interest expense	-	-	2,667	-	2,667
Tenant security deposits	-	-	5,705	-	5,705
Current portion of loan participations	299,817	-	-	-	299,817
Current portion of Due to State of Minnesota	171,459	-	-	-	171,459
Current portion of long-term debt	-	-	150,000	-	150,000
Total current liabilities	<u>589,734</u>	<u>-</u>	<u>422,438</u>	<u>-</u>	<u>1,012,172</u>
Loan participations, less current portion	791,540	-	-	-	791,540
Due to State of Minnesota, less current portion	256,668	-	-	-	256,668
Long-term debt, less current portion	750,000	-	1,220,000	-	1,970,000
Total liabilities	<u>2,387,942</u>	<u>-</u>	<u>1,642,438</u>	<u>-</u>	<u>4,030,380</u>
Net assets	<u>1,003,853</u>	<u>57,388</u>	<u>240,251</u>	<u>(298,143)</u>	<u>1,003,349</u>
Total liabilities and net assets	<u>\$ 3,391,795</u>	<u>\$ 57,388</u>	<u>\$ 1,882,689</u>	<u>\$ (298,143)</u>	<u>\$ 5,033,729</u>

See independent auditor's report.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2009

	ADC	ADC Financial Services	ADC Commercial Real Estate	Eliminations	Total
Support and revenues:					
Contributions	\$ 590,189	\$ -	\$ -	\$ -	\$ 590,189
Government grants	74,500	-	-	-	74,500
Program service fees	91,201	855	-	-	92,056
In kind contributions	45,372	-	-	-	45,372
Rental revenue	-	-	54,536	(11,458)	43,078
Interest income - loans	45,624	-	-	-	45,624
Interest income - cash accounts	9,603	1,312	1,242	-	12,157
Miscellaneous income	2,035	-	-	-	2,035
Total support and revenues	858,524	2,167	55,778	(11,458)	905,011
Expenses:					
Program services	633,463	14,193	104,319	(11,458)	740,517
Management and general	193,113	-	27,377	-	220,490
Fundraising	43,509	-	-	-	43,509
Total expenses	870,085	14,193	131,695	(11,458)	1,004,515
Change in net assets - operating	(11,561)	(12,026)	(75,917)	-	(99,504)
Loss from affiliates	(87,141)	-	-	87,141	-
Contributions for loans	300,000	-	-	-	300,000
Contributions for building	220,500	-	-	-	220,500
Total change in net assets	421,798	(12,026)	(75,917)	87,141	420,996
Net assets - beginning of year	582,055	55,498	-	(55,200)	582,353
Investment from ADC	-	13,916	316,168	(330,084)	-
Net assets - end of year	\$ 1,003,853	\$ 57,388	\$ 240,251	\$ (298,143)	\$ 1,003,349

See independent auditor's report.