AFRICAN DEVELOPMENT CENTER

CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2012

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

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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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
African Development Center
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of the African Development Center (a nonprofit organization) and subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited African Development Center's 2011 consolidated financial statements, and our report dated July 20, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information shown on pages 20 and 21 is presented for purposes of additional analysis of the financial statements rather than present the financial position and changes in net assets of the individual entities, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mahoney Ulbrich
Christiansen Russ P.A.

Saint Paul, Minnesota
May 16, 2013

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2012
(With Comparative Totals for 2011)

	2012	2011
ASSETS		
Current assets:		
Cash	$ 117,985	$ 205,554
Certificates of deposit	160,503	159,835
Accounts receivable	31,578	14,326
Accounts receivable - loan program	425	1,725
Current portion of contributions receivable	375,000	340,000
Current portion of loans receivable, net of allowance	598,037	503,228
Prepaid expenses and lease deposit	115	847
Total current assets	1,283,643	1,225,515
Cash - restricted for loans	874,543	1,038,052
Cash - restricted for loan programs	-	131,000
Contributions receivable, less current portion	125,000	190,000
Loans receivable, less current portion, net of allowance	1,261,003	1,823,567
Land, building and equipment, net	1,960,494	2,002,613
Finance fees, net	3,995	4,835
Total assets	$ 5,508,678	$ 6,415,582
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 62,195	$ 69,364
Funds held for loans	72,882	159,528
Accrued interest expense	21,397	22,096
Tenant security deposits	4,805	6,005
Current portion of loan participations and deferred profit	258,506	254,686
Current portion of Due to State of Minnesota	135,282	127,145
Current portion of long-term debt	47,776	46,715
Total current liabilities	602,843	685,539
Loan participations, less current portion	778,167	1,095,350
Due to State of Minnesota, less current portion	215,968	351,058
Long-term debt, less current portion	2,575,099	2,609,191
Total liabilities	4,172,077	4,741,138
Unrestricted net assets	414,501	419,094
Temporarily restricted net assets	922,100	1,255,350
Total net assets	1,336,601	1,674,444
Total liabilities and net assets	$ 5,508,678	$ 6,415,582

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, 2012
(With Comparative Totals for 2011)

	2012			
	Unrestricted	Temporarily restricted	Total	2011
Support and revenues:				
Contributions	$ 158,321	$ 350,000	$ 508,321	$ 968,686
Government grants	81,492	-	81,492	32,000
Net assets released from time and usage restrictions	613,250	(613,250)	-	-
Program service fees	72,652	-	72,652	84,991
In kind contributions	22,828	-	22,828	22,380
Rental revenue	140,753	-	140,753	140,589
Interest income - loans	61,102	-	61,102	57,867
Interest income - cash accounts	3,624	-	3,624	10,682
Swedish delegation visit	39,675	-	39,675	-
Less direct costs	(30,287)	-	(30,287)	-
Annual gala	19,236	-	19,236	14,015
Less direct donor benefits	(11,252)	-	(11,252)	(555)
Other income	4,871	-	4,871	4,443
Total support and revenues	1,176,265	(263,250)	913,015	1,335,098
Expenses:				
Program services	922,185	-	922,185	841,639
Management and general	239,897	-	239,897	291,134
Fundraising	88,776	-	88,776	71,721
Total expenses	1,250,858	-	1,250,858	1,204,494
Change in net assets - operating	(74,593)	(263,250)	(337,843)	130,604
Net assets released from usage restrictions - loan fund	70,000	(70,000)	-	-
Total change in net assets	(4,593)	(333,250)	(337,843)	130,604
Net assets - beginning of year	419,094	1,255,350	1,674,444	1,543,840
Net assets - end of year	$ 414,501	$ 922,100	$ 1,336,601	$ 1,674,444

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012				
	Program Services	Management and General	Fundraising	Total	2011
Salaries	$ 428,758	$ 113,139	$ 39,581	$ 581,478	$ 526,000
Payroll taxes	32,759	9,396	3,252	45,407	42,515
Employee benefits	31,472	2,198	1,500	35,170	43,140
Total salaries and related	492,989	124,733	44,333	662,055	611,655
Professional fees	45,500	46,028	9,000	100,528	76,214
Consultants	25,418	4,487	10,280	40,185	24,537
Telecommunications	11,969	2,411	-	14,380	15,124
Rent and occupancy	-	-	-	-	1,312
Equipment expenses	665	109	-	774	6,951
Travel and entertainment	13,631	448	400	14,479	48,185
Office expenses	32,499	4,835	-	37,334	30,117
Printing and reproduction	3,502	532	-	4,034	7,617
Dues and subscriptions	4,927	606	160	5,693	6,068
Meetings and training	46,311	543	963	47,817	9,416
Insurance	7,655	1,319	-	8,974	7,405
Loan and loan-related expenses	10,607	-	-	10,607	8,995
Board and annual meeting	-	13	18,155	18,168	11,687
Grants and donations	11,118	645	-	11,763	1,100
Marketing and promotions	4,218	725	-	4,943	2,395
Interest	73,763	14,001	4,841	92,605	93,967
Provision for loan losses	24,685	-	-	24,685	35,553
Depreciation and amortization	81,683	21,109	6,168	108,960	106,737
Building operations	17,165	4,882	1,708	23,755	44,786
Utilities	27,219	7,742	2,708	37,669	37,166
Property taxes	12,577	3,577	1,252	17,406	14,155
Miscellaneous	4,371	1,152	60	5,583	3,907
Total expenses before removal of direct costs	952,472	239,897	100,028	1,292,397	1,205,049
Direct donor benefits and Swedish delegation costs	(30,287)	-	(11,252)	(41,539)	(555)
Total expenses less direct costs	$ 922,185	$ 239,897	$ 88,776	$ 1,250,858	$ 1,204,494

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

Increase (Decrease) in Cash Flows

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (337,843)	$ 130,604
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	108,960	106,737
Provision for loan losses	24,685	35,553
Changes in operating assets and liabilities:		
Accounts receivable	(15,952)	23,386
Contributions receivable	30,000	(455,000)
Prepaid expenses and lease deposit	732	315
Accounts payable and other accrued expenses	(19,770)	31,542
Contract advances	-	(10,000)
Accrued interest	(699)	8,710
Tenant security deposits	(1,200)	(220)
Net cash from operating activities	(211,087)	(128,373)
Cash flows from investing activities:		
Loans issued	(230,000)	(498,800)
Collections on loans	544,219	542,378
Change in cash - restricted for loan programs	163,509	28,960
Change in cash - restricted for programs	131,000	-
Interest earned on certificates of deposit	(668)	(1,877)
Purchase of land, building, and equipment	(53,400)	(235,203)
Net cash from investing activities	554,660	(164,542)
Cash flows from financing activities:		
Funds received from (paid to) participatory lenders, net	(398,111)	50,044
Proceeds of long-term debt	-	258,667
Payments of long-term debt	(33,031)	(22,388)
Payment of finance fees	-	(500)
Net cash from financing activities	(431,142)	285,823
Net decrease in cash	(87,569)	(7,092)
Cash - beginning of year	205,554	212,646
Cash - end of year	$ 117,985	$ 205,554
Supplemental cash flow information:		
Cash paid for interest expense	$ 93,304	$ 76,889
Purchase of land, building and equipment included in accounts payable	$ 23,811	$ 11,210

See accompanying notes to consolidated financial statements.

1. ORGANIZATION

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

Activities include:

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

ADC raises funds for its loan programs from contributions, government grants and loan programs, participations with other lenders and notes payable.

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

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

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, Inc. (ADC FS) has temporarily discontinued operations and has minimal activity.

ADC Commercial Real Estate, Inc. (ADC CRE) was formed in 2009 to own and operate buildings utilized by ADC. ADC CRE owns and operates two buildings utilized by ADC. One building is located in Minneapolis, Minnesota (Riverside Building) and is being used as its main office and training center. The building has excess space that is being rented to office tenants and a retail tenant. The other building is located in Willmar, Minnesota (Willmar Building) which serves as a satellite office.

ADC Business Consulting, Inc. (ADC BC) is a new social venture that provides accounting assistance and tax preparation to African-owned businesses in Minnesota. ADC BC was formed in 2012 and had no financial activity.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - 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. Temporarily restricted net assets are released from restrictions when a stipulated time restriction ends or the usage restriction is met.
- 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, 2012, deposits exceeded the federally insured limit by $622,322.

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. Cash restricted for loans and for loan programs (not to be spent within a year) is not considered a cash equivalent.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect. Management reviews receivable balances at year end and establishes an allowance for doubtful accounts based on expected collections. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless. Management has determined that no allowance is necessary at December 31, 2012 and 2011.

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.

(Continued)

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

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 it fair value. To date, management has determined that no impairment of long-lived assets exists.

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

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

Loans Receivable and Allowance for Loan Losses - Loans receivable are stated at unpaid balances, less an allowance for loan losses. Loans are recorded when closed.

Allowances are only established on ADC's portion of loan balances. Allowances are not established on the portion of loans held for UIP or other participating lenders because they bear the risk of loss on those loans.

The 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 ADC's portion of existing loans that may become uncollectible, based on evaluation of the collectability of loans and the quality of collateral. 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.

A portion of ADC's loans utilize the Muslim profit-based financing system. For these loans, the loan balance includes uncollected profit, which has been deferred and included in the loan participation liability account (See Note 5).

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 when received.

UIP Program and Loan Participations – Amounts provided by UIP and participating lenders are presented as liabilities.

Funds held for loans represent undisbursed loan proceeds and loan collections to be remitted to UIP or loan participants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Community Development Financial Institutions (CDFI) Fund grants are to be used to make loans and to provide business development / technical assistance. CDFI grants are not reimbursement based and therefore are accounted for similar to contributions and reported in temporarily restricted net assets.

Contributed Services and Materials - Contributed services and materials are recorded as contributions at their fair value when received. Contributed services are recorded 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 typically need to be purchased if not provided by donation. ADC received in-kind legal services valued at $22,828 in 2012 and $22,380 in 2011.

ADC has been provided office space in Rochester without charge. The value is insignificant and it not recorded in the financial statements.

Program Service Fees - Program service fees are recorded as revenue 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.

Reclassifications - Certain reclassifications have been made to the prior year financial statements to be consistent with the current year classifications. The reclassifications did not affect net assets or the change in net assets.

(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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with ADC's financial statements for the year ended December 31, 2011, 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, 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 2012 or 2011.

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

Management believes that ADC and its subsidiaries have no uncertain income tax positions. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The entities are not currently under examination by any taxing jurisdiction.

3. **CONTRIBUTIONS RECEIVABLE**

Contributions receivable of $375,000 are due in 2013 and $125,000 in 2014.

4. **LOANS RECEIVABLE**

Loans receivable consist of the following:

	2012	2011	Number of loans at December 31, 2012
Small business loans	$1,979,061	$2,444,360	191
Allowance for loan losses	(120,021)	(117,565)	
	1,859,040	2,326,795	
Less current portion	(598,037)	(503,228)	
	$1,261,003	$1,823,567	

4. **LOANS RECEIVABLE (Continued)**

Micro-loans provided by ADC are primarily structured in two formats:

- **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.

A summary of the loans receivable aging as of December 31, 2012, follows:

	Total	Participants		ADC	
Current	$ 1,589,587	$ 879,298	80%	$ 710,289	74%
1 – 30 days	119,356	45,139	6%	74,217	8%
31 – 60 days	155,091	52,492	8%	102,599	11%
61 – 90 days	339	169	0%	170	0%
Over 90 days	114,688	45,541	6%	69,147	7%
	$ 1,979,061	$ 1,022,639	100%	$ 956,422	100%

Changes to allowance for loan losses consist of the following:

	2012	2011
Beginning balance	$ 117,565	$ 93,605
Provision for loan losses	24,685	35,553
Loans written off	(22,229)	(11,593)
Ending balance	$ 120,021	$ 117,565

Allowances are only established on ADC's portion of loan balances. Allowances are not established on the portion of loans held for UIP or other participating lenders because they bear the risk of loss on the loan. Management evaluates collectability of loans individually and establishes an allowance based on its review.

(Continued)

4. LOANS RECEIVABLE (Continued)

Other information as of December 31, 2012:

- Management determined there were three impaired loans totaling $30,000 during the year. The payment terms for these three loans have been restructured.
- There were no changes in ADC's accounting policies during the year. There have been no purchases, sales or reclassifications of financing receivables.

5. LOAN PARTICIPATIONS

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

Loan participations and deferred profit consist of the following:

	2012	2011
CPED loan participations	$ 641,685	$ 873,036
MCCD loan participations	153,278	182,691
NDC loan participations	115,890	148,374
FCF loan participation	15,000	20,000
Deferred profit on loans	110,820	125,935
	1,036,673	1,350,036
Less current portion	(258,506)	(254,686)
	$ 778,167	$1,095,350

6. DUE TO STATE OF MINNESOTA (UIP)

ADC participates in the Urban Initiatives Loan Program (UIP) sponsored by the State of Minnesota with a funding commitment of $750,000. Under the UIP program, ADC services the loans and repays UIP as loans are collected. Interest 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.

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).

6. DUE TO STATE OF MINNESOTA (UIP)

Due to the State of Minnesota consists of:

	2012	2011
Current portion	$ 135,282	$ 127,145
Long-term portion	215,968	351,058
Total UIP	$ 351,250	$ 478,203

7. LAND, BUILDING AND EQUIPMENT

Property and equipment consists of the following:

	2012	2011	Estimated useful lives (in years)
ADC:			
Computers and equipment	$ 209,549	$ 188,329	3 - 7
ADC Commercial Real Estate:			
Land	170,127	170,127	-
Building	814,831	814,831	30
Building improvements	1,113,195	1,069,131	5 - 30
Equipment	31,928	31,928	5 - 7
	2,339,630	2,274,346	
Less accumulated depreciation	(379,136)	(271,733)	
	$ 1,960,494	$ 2,002,613	

8. 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.

(Continued)

9. LONG-TERM DEBT

Notes payable consists of the following:

	2012	2011
ADC:		
Wells Fargo EQ2 loans	$ 500,000	$ 500,000
M & I EQ2 loan	500,000	500,000
SBA microloan	160,718	166,667
ADC CRE:		
MMCDC New Markets Fund - senior loan	805,947	805,947
MMCDC New Markets Fund - subordinate loan	214,053	214,053
Park Midway Bank	111,277	125,623
City of Minneapolis	200,000	200,000
City of Minneapolis	44,581	54,266
Bremer Bank	86,299	89,350
	2,622,875	2,655,906
Less current portion	(47,776)	(46,715)
	$ 2,575,099	$ 2,609,191

ADC:

Wells Fargo EQ2 loan – EQ2 loan agreement with the Wells Fargo Community Development Corporation for $250,000 dated June 5, 2006. The loan is 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.

During 2010, ADC entered into a second agreement with the Wells Fargo Community Development Corporation for a $250,000 EQ2 loan for the same purpose as the original loan. The interest rate is 2% for the first ten years of the loan. Interest is payable quarterly. Principal and unpaid interest are due in 2020. Within 30 days prior to maturity, ADC may request an extension of two additional years.

(Continued)

9. LONG-TERM DEBT (Continued)

M & I EQ2 loan – EQ2 loan with M & I Bank for $500,000 dated March 31, 2008. The loan is to be used to make loans for community development purposes. The loan has an interest rate equal to 3%. Interest is payable quarterly. Principal and unpaid interest are due March 31, 2013. The maturity date may be extended through March 31, 2018, with the consent of the lender. ADC and the bank are currently in negotiations to extend the loan.

SBA microloan – Loan agreement with the U. S. Small Business Administration (SBA) for $500,000 under the microloan program dated August 25, 2011. The loan is to be used to make loans for community development purposes. The loan has an interest rate equal to 2.25% and is payable ten years from the date of the note.

Interest will be reduced as follows: 1) during the first through the twelfth month, interest will be brought down by 2 percentage points, 2) in the ninth month after the date of the note, the program portfolio will be evaluated and if the average size of microloans made is equal to $10,000 or less, interest will continue to accrue at .25% during the thirteenth through the twenty-fourth month of the note. If the average size of microloans is greater than $10,000, the interest will accrue at 1%, and 3) recalculation of interest will take place (as previously described) at regular intervals on the twenty-first month and annually thereafter. No payments of principal or interest are required during the first year from the date of the note. Interest accrued during the first year will be divided into 108 equal installments and added to the calculated payments of principal and interest during the thirteenth through one-hundred twentieth month of the note. Monthly principal and interest payments of $4,694 begin the thirteenth month, along with the deferred interest calculated in the first year.

The loan is secured by funds held in a revolving fund bank account (included in cash restricted for loan programs), funds held in a loan loss reserve, and loans made as a result of funding received under the microloan program.

ADC CRE:

MMCDC New Markets Fund - First mortgage, senior loan for $805,947 dated March 3, 2009, payable to MMCDC (Midwest Minnesota Community Development Corporation) New Markets Fund XVIII, LLC with fixed interest of 4.967%. 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.

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

MMCDC New Markets Fund - First mortgage, subordinate loan for $214,053 dated March 3, 2009, payable to MMCDC New Markets Fund XVIII, LLC with fixed interest at 4.967%. 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 for $150,000 dated March 3, 2009, with interest at 2%, payable on demand. If no demand is made, 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 for $200,000 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 (1) 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. No payments were made during 2012 or 2011. Principal and interest are due on September 3, 2016. Secured by the Riverside Building and assignment of all rents.

City of Minneapolis - Note payable to City of Minneapolis for $60,000 dated November 30, 2010, with an interest rate of 2%. Interest only payments of $100 payable on the first day of each month commencing January 1, 2011, for three months. Equal payments of $1,052 are due and payable on the first of each month commencing April 1, 2011. Note matures March 1, 2016. Secured by accounts, inventory, equipment, and general intangibles as described in the security agreement.

Bremer Bank - First mortgage payable to Bremer Bank for $92,000 dated June 9, 2011, with a variable interest rate (4.68% as of December 31, 2012). Monthly principal and interest payments of $602 began July 9, 2011. Effective July 9, 2014, the variable interest rate will change but the monthly payments will stay the same. A final principal and unpaid interest payment is due June 9, 2021. Secured by the Willmar Building.

9. LONG-TERM DEBT (Continued)

Maturities of long-term debt are as follows:

2013	$ 47,776
2014	49,134
2015	856,453
2016	496,809
2017	39,407
Thereafter	1,133,296
	$ 2,622,875

10. LINE OF CREDIT

ADC has a $150,000 line of credit from Western Bank for general operating purposes. The line of credit matures June 15, 2013. The interest rate is 1% over the Wall Street Journal Prime Rate, however, the rate will never be less than 5%. There was no balance outstanding at December 31, 2012. Advances are secured by accounts receivable, equipment and general intangibles.

11. NET ASSETS

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

	2012	2011
Operating:		
CDFI	$ 117,000	$ 375,000
Program services in greater Minnesota	100,000	200,000
Business development and wealth creation	40,000	45,000
Technological training	15,000	30,000
Breakfast roundtable program	-	10,000
Technological upgrades	25,000	40,250
General operating support – time restricted	385,000	245,000
Loan programs:		
CDFI	240,100	310,100
	$ 922,100	$ 1,255,350

Restrictions are classified above according to their main restriction. Some of the restrictions have components of both time and purpose restrictions.

(Continued)

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 lease term for the retail suite is for five years.

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

2013	$ 62,026
2014	65,124
2015	52,832
	$ 179,982

13. REVENUE CONCENTRATIONS

ADC received 27% ($250,000) and 13% ($120,000) of its support and revenue from two foundations in 2012.

ADC received 24% ($350,000), 16% ($225,000) and 13% ($180,000) of its support and revenue from three foundations in 2011.

14. RELATED PARTY TRANSACTIONS

ADC's loan portfolio includes a loan to a relative of an employee of ADC.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 16, 2013, the date on which the financial statements were available for issue, and identified no significant events or transactions to disclose.

SUPPLEMENTARY INFORMATION