AFRICAN DEVELOPMENT CENTER

CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2016

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

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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, 2016, 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.

(Continued)

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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 23 and 24 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
June 12, 2017

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets:		
Cash	$ 398,690	$ 562,259
Certificates of deposit	165,801	163,965
Accounts receivable, net	32,540	23,979
Current portion of contributions and grants receivable	278,975	230,072
Current portion of loans receivable, net of allowance	615,904	556,556
Total current assets	1,491,910	1,536,831
Cash - restricted for loans	855,849	882,415
Contributions and grants receivable, less current portion	-	75,000
Loans receivable, less current portion, net of allowance	786,256	746,624
Land, buildings and equipment, net	1,583,589	1,686,487
Investment in AfroUniversal Studio, net	-	59,674
Total assets	$ 4,717,604	$ 4,987,031
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 62,039	$ 60,382
Deferred revenue	-	6,500
Funds held for loans	83,890	32,416
Accrued interest expense	21,965	8,973
Tenant security deposits	4,343	6,710
Line of credit	-	63,000
Current portion of loan participations	190,222	197,486
Current portion of Due to State of Minnesota	85,689	73,410
Current portion of long-term debt	427,114	528,314
Total current liabilities	875,262	977,191
Loan participations, less current portion	211,586	276,993
Due to State of Minnesota, less current portion	31,275	53,177
Long-term debt, less current portion	2,251,403	2,246,131
Total liabilities	3,369,526	3,553,492
Unrestricted net assets	966,778	1,151,039
Temporarily restricted net assets	381,300	282,500
Total net assets	1,348,078	1,433,539
Total liabilities and net assets	$ 4,717,604	$ 4,987,031

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, 2016
(With Comparative Totals for 2015)

	2016			
	Unrestricted	Temporarily restricted	Total	2015
Support and revenues:				
Contributions	$ 252,113	$ 260,300	$ 512,413	$ 309,388
Government grants	216,385	-	216,385	221,820
Net assets released from time and usage restrictions	161,500	(161,500)	-	-
Program service fees	64,004	-	64,004	83,231
In-kind contributions	252,425	-	252,425	69,678
Rental revenue	77,984	-	77,984	166,014
Interest income - loans	61,207	-	61,207	60,482
Interest income - cash accounts	3,555	-	3,555	2,705
Awards event, net of direct donor benefits of $8,345	1,794	-	1,794	-
Other income	4,850	-	4,850	3,384
Total support and revenues	1,095,817	98,800	1,194,617	916,702
Expenses:				
Program services	861,612	-	861,612	717,834
Management and general	349,243	-	349,243	126,697
Fundraising	61,496	-	61,496	46,794
Total expenses	1,272,351	-	1,272,351	891,325
Change in net assets - operating	(176,534)	98,800	(77,734)	25,377
Income from debt forgiveness	-	-	-	188,027
Income tax (expense) benefit	7,295	-	7,295	(23,647)
Loss on disposal of assets	(15,022)	-	(15,022)	-
Total change in net assets	(184,261)	98,800	(85,461)	189,757
Net assets - beginning of year	1,151,039	282,500	1,433,539	1,243,782
Net assets - end of year	$ 966,778	$ 381,300	$ 1,348,078	$ 1,433,539

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016				
	Program Services	Management and General	Fundraising	Total	2015
Salaries	$ 299,118	$ 27,379	$ 34,780	$ 361,277	$ 323,821
Payroll taxes	32,062	3,259	4,791	40,112	34,532
Employee benefits	15,597	1,410	1,860	18,867	19,331
Total salaries and related	346,777	32,048	41,431	420,256	377,684
Professional fees	12,774	285,212	307	298,293	104,519
Consultants	2,882	9,374	8,094	20,350	4,466
Occupancy	15,422	-	15	15,437	13,368
Office expenses and supplies	19,699	1,418	-	21,117	14,610
Telecommunications	14,789	1,825	-	16,614	11,657
Equipment expenses	1,275	225	-	1,500	2,778
Travel and entertainment	8,181	1,910	-	10,091	10,971
Dues and subscriptions	13,447	1,826	-	15,273	5,792
Marketing and promotions	1,790	353	-	2,143	1,691
Meetings and training	19,689	360	-	20,049	10,465
Grants and donations	319	56	-	375	2,950
Insurance	12,359	1,357	503	14,219	12,969
Loan and loan-related expenses	6,801	-	-	6,801	4,254
Provision for loan losses	73,141	-	-	73,141	12,861
AfroUniversal Studio write down	59,324	-	-	59,324	-
Interest	78,590	2,901	2,697	84,188	98,200
Building operations	32,856	1,362	1,730	35,948	37,030
Utilities	36,427	1,510	1,919	39,856	38,755
Property taxes	9,700	402	511	10,613	12,538
Depreciation	93,614	5,524	4,288	103,426	112,041
Miscellaneous	1,756	1,580	-	3,336	1,726
Total expenses excluding direct donor benefits	861,612	349,243	61,496	1,272,351	891,325
Add: Direct donor benefits of awards event	-	3,304	5,041	8,345	-
Total expenses	$ 861,612	$ 352,547	$ 66,537	$ 1,280,696	$ 891,325

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

Increase (Decrease) in Cash

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (85,461)	$ 189,757
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	103,426	112,041
Provision for loan losses	73,141	12,861
Write down of investment in AfroUniversal Studio	59,674	-
Income from debt forgiveness	-	(188,027)
Loss on disposal of assets	15,022	-
Interest reinvested on certificates of deposit	(1,836)	(902)
Changes in operating assets and liabilities:		
Accounts receivable	(8,561)	57,745
Contributions receivable	26,097	(72)
Accounts payable and other accrued expenses	1,657	26,002
Deferred revenue	(6,500)	6,500
Accrued interest	12,992	1,940
Tenant security deposits	(2,367)	(400)
Net cash from operating activities	187,284	217,445
Cash flows from investing activities:		
Loans issued	(716,060)	(388,000)
Collections on loans	539,624	330,939
Change in cash - restricted for loan programs	26,566	35,352
Purchase of equipment	(15,550)	(24,334)
Net cash from investing activities	(165,420)	(46,043)
Cash flows from financing activities:		
Funds received from (paid to) participatory lenders, net	(26,505)	(106,010)
Proceeds of long-term debt, net	35,000	130,803
Payments of long-term debt	(130,928)	(128,061)
Payment of line of credit	(63,000)	-
Purchase of finance fees	-	(7,591)
Net cash from financing activities	(185,433)	(110,859)
Net increase (decrease) in cash	(163,569)	60,543
Cash - beginning of year	562,259	501,716
Cash - end of year	$ 398,690	$ 562,259
Supplemental cash flow information:		
Cash paid for interest expense	$ 71,196	$ 92,260
Cash paid for income taxes	$ 28,342	$ -
Participant loan losses forgiven	$ 54,312	$ 101,410
Debt refinanced into new debt	$ -	$ 805,947

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 primarily 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 offers a range of business loan products.

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., ADC Commercial Real Estate, Inc., Jambo! Deli & Coffee, and ADC Business Consulting Inc. The 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 two buildings utilized by ADC. One building is located in Minneapolis, Minnesota (ADC Headquarters 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) and serves as a satellite office.

(Continued)

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

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

In December 2016 Jambo! Deli & Coffee LLC was incorporated and had no significant activity. It is a wholly owned subsidiary of ADC CRE.

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 the donor as stipulated must be maintained in perpetuity. ADC has no permanently restricted net assets.

Cash Equivalents - For purposes of preparing the statement of cash flows, cash restricted for loans and certificates of deposit held for investment are not considered cash equivalents.

Cash – Restricted for Loans – Cash – restricted for loans represents loan proceeds or contributions and grants received for lending and cash and loan collections to be remitted to loan participants.

Accounts and Grants Receivable - Accounts and grants 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 recorded an allowance of $20,220 in receivables a December 31, 2016, and no allowance at December 31, 2015.

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

Certificates of Deposit - ADC's certificates of deposits have maturity dates ranging from three to twelve months.

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.

The allowance is a percentage of loans on which ADC has a risk of loss. Allowances are not established on the portion of loans held for the State of Minnesota Emerging Entrepreneur Loan Program (ELP) or other participating lenders because they bear the risk of loss on those loans.

Management believes the allowance will be adequate to absorb possible losses on 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 reduces the related loan receivable and is recorded as revenue when received.

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.

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

Funds held for loans represent undisbursed participant loan proceeds received and loan collections to be remitted to the State of Minnesota or loan participants.

Due to State of Minnesota and Loan Participations - Amounts provided by the State of Minnesota and participating lenders are presented as liabilities.

(Continued)

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

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.

Investment in AfroUniversal - The investment in AfroUniversal was recorded at cost less impairment. The remaining balance was written off during 2016.

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. An impairment of $59,974 was recognized in 2016. No impairment was recognized in 2015.

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.

Contributed Services and Materials - Contributed 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 and planning services valued at $252,425 in 2016 and $69,678 in 2015.

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

Government Grants and Contracts - Government grants and contracts are generally 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)

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

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

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. Rental payments received in advance are deferred until earned. All leases are operating leases.

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, 2015, from which the summarized information was derived.

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.

Management and general expenses increased by approximately $250,000 due to donated legal services related to the settlement of the dispute with the former retail tenant.

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.

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 2016 or 2015.

ADC FS, ADC CRE, and ADC BC are taxable corporations and file separate Federal income tax returns and a combined Minnesota income tax return.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are due to be collected in 2017.

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	2016	2015	Number of loans at December 31, 2016
Small business loans	$1,554,972	$1,417,303	154
Allowance for loan losses	(152,812)	(114,123)	
	1,402,160	1,303,180	
Less current portion	(615,904)	(556,556)	
	$ 786,256	$ 818,724	

Small business loans provided by ADC are primarily structured in two formats:

- **Profit-based financing loans** – ADC helps Muslim and non-Muslim borrowers finance their businesses 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)

4. LOANS RECEIVABLE (Continued)

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

	2016		2015	
Current	$ 1,310,717	84%	$ 1,190,947	84%
1 – 30 days	112,668	7%	92,641	7%
31 – 60 days	43,200	3%	60,849	4%
61 – 90 days	-	0%	-	0%
Over 90 days	88,387	6%	72,865	5%
	$ 1,554,972	100%	$ 1,417,302	100%

Changes to the allowance for loan losses consist of the following:

	2016	2015
Beginning balance	$ 114,123	$ 121,113
Provision for loan losses	73,141	12,861
Loans written off	(34,452)	(19,851)
Ending balance	$ 152,812	$ 114,123

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

Other information as of December 31, 2016:

- 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

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

Loan participations consist of the following:

	2016	2015
CPED loan participations	$ 189,484	$ 295,818
MCCD loan participations	76,361	91,753
NDC loan participations	42,308	74,923
FCF loan participation	-	11,985
MEDA loan participation	93,655	-
	401,808	474,479
Less current portion	(190,222)	(197,486)
	$ 211,586	$ 276,993

6. DUE TO STATE OF MINNESOTA

ADC participates in the Emerging Entrepreneur Loan Program (ELP), formerly known as the Urban Initiatives Loan Program (UIP), sponsored by the State of Minnesota's Department of Employment and Economic Development (MN DEED) with a funding commitment of $750,000. Under the program, ADC services the loans and repays ELP as loans are collected. Interest earned is retained by ADC. ELP loan capital is provided to ADC on a non-recourse basis. ADC is not obligated to repay MN DEED 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).

(Continued)

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

Due to the State of Minnesota consists of:

	2016	2015
Current portion	$ 85,689	$ 73,410
Long-term portion	31,275	53,177
Total Due to State of Minnesota	$ 116,964	$ 126,587

7. **LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consists of the following:

	2016	2015	Estimated useful lives (in years)
ADC:			
Computers and equipment	$ 253,519	$ 242,376	3 - 7
ADC Commercial Real Estate:			
Land	170,127	170,127	-
Buildings	814,831	814,831	30
Building improvements	1,131,378	1,126,972	5 - 30
Equipment	11,251	46,928	5 - 7
	2,381,106	2,401,234	
Less accumulated depreciation	(797,517)	(714,747)	
	$ 1,583,589	$ 1,686,487	

8. **INVESTMENTS**

From time to time when appropriate and funds are available, ADC makes capital investments in social ventures as part of its mission to support community based business and grow revenue for organizational self-sufficiency.

In exchange for leasehold improvements, ADC CRE had a profit sharing agreement with Afro Deli, a restaurant located in the ADC Headquarters Building. The agreement ended during 2016. In December 2016 ADC formed Jambo! Deli & Coffee LLC which will operate in the space.

9. **LONG-TERM DEBT**

Notes payable consists of the following:

	2016	2015
ADC:		
Wells Fargo EQ2 loans	$ 468,659	$ 500,000
BMO Harris EQ2 loan	500,000	500,000
SBA microloan	290,959	351,569
MN DEED promissory note	271,750	236,750
ADC CRE:		
MMCDC loan	825,521	840,000
Park Midway Bank	50,941	66,480
City of Minneapolis	200,000	200,000
City of Minneapolis	1,317	5,233
Bremer Bank	69,370	74,413
	2,678,517	2,774,445
Less current portion	(427,114)	(528,314)
	$ 2,251,403	$ 2,246,131

ADC:

Wells Fargo EQ2 loans – 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. The loan was extended through June 21, 2018. Quarterly principal and interest payments of $31,250 began in 2016.

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

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.

BMO Harris EQ2 loan – EQ2 loan with BMO Harris 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. The agreement required principal and unpaid interest to be paid March 31, 2013; however, the maturity date may be extended through March 31, 2018, with the consent of the lender. ADC and the bank are 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%.

Interest will be reduced as follows: 1) during the first through the twelfth month, interest will be reduced 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. At December 31, 2016, the interest rate was 1%.

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, through July 25, 2021.

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.

(Continued)

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

MN DEED promissory note – Note payable to MN DEED in the original amount of $271,500 without interest dated May 25, 2012. The loan was funded under the MN DEED's Emerging Entrepreneurs Fund program from the U.S. Department of Treasury State Small Business Credit Initiative (SSBCI) and is to be used for lending purposes for small businesses. Principal is due May 25, 2022. ADC is not obligated to repay the portion of the loan that is subject to default which ADC has not been able to recover. ADC may continue to service loans after the maturity date, but must forward to MN DEED any funds recovered from the proceeds of the loan.

ADC CRE:

MMCDC - First mortgage payable to MMCDC for $840,000 dated December 23, 2015, with interest at 4.75%. Equal payments of $4,789 are due and payable on the first of each month commencing February 1, 2016. The note matures January 1, 2021. Secured by the ADC Headquarters, personal property, and 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. 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 ADC Headquarters 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%. 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 2016 or 2015. Principal and interest were due on September 3, 2016. Management is negotiations with the City to refinance the debt. Secured by the ADC Headquarters Building and assignment of all rents.

(Continued)

9. LONG-TERM DEBT (Continued)

City of Minneapolis - Note payable to City of Minneapolis for $60,000 dated November 30, 2010, with an interest rate of 2%. Equal payments of $1,052 are due and payable on the first of each month commencing April 1, 2011. Note matured June 1, 2016. Secured by accounts, inventory, equipment, and general intangibles as described in the security agreement. The note was paid off early 2017.

Bremer Bank - First mortgage payable to Bremer Bank for $92,000 dated June 9, 2011, with a variable interest rate (3.75% as of December 31, 2016). Payable in monthly principal and interest payments of $600. A final principal and unpaid interest payment is due June 9, 2021. Secured by the Willmar Building.

Maturities of long-term debt are as follows:

2017	$ 427,114
2018	696,474
2019	107,218
2020	340,178
2021	835,783
Thereafter	271,750
	$ 2,678,517

10. LINE OF CREDIT

ADC has a $150,000 line of credit from Western Bank for general operating purposes. The line of credit matures July 18, 2017. The interest rate is 1% over the Wall Street Journal Prime Rate, however, the rate will never be less than 5%. At December 31, 2016, there were no advances and the interest rate was 5%. 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:

	2016	2015
Operating:		
Program services in greater Minnesota	$ 75,000	$ 150,000
Business development	50,000	75,000
Upgrade technology	36,000	36,000
Homeownership capacity	22,800	-
Foodtruck	150,000	-
Financial education	37,500	-
Other program activities	10,000	21,500
	$ 381,300	$ 282,500

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

12. COMMERCIAL RENT REVENUE

ADC utilizes approximately 49% of the ADC Headquarters 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 five years. The lease term for the retail suite was month-to-month.

During 2016, the lease for the retail space was not renewed and the tenant left. In December 2016 ADC incorporated a deli to occupy the retail space.

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

2017	$ 26,226
2018	10,805
2019	8,347
	$ 45,378

(Continued)

13. CONCENTRATIONS

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, 2016, deposits exceeded the federally insured limit by $1,013,915.

ADC received 14% ($150,000) of its support and revenue from a foundation in 2016. Donated legal services represent 21% of 2016 support and revenue.

ADC received 18% ($175,000), 15% ($140,000), and 15% ($141,000) of its support and revenue from two foundations and one governmental agency in 2015. The debt forgiveness represented 17% ($188,027) of its 2015 support and revenue.

14. INCOME TAXES

Income tax benefit (expense) for ADC CRE consists of the following:

	2016	2015
Current income tax (expense) benefit	$ 7,295	$ (71,657)
Net operating loss benefit	-	48,010
Income tax (expense) benefit	$ 7,295	$ (23,647)

The federal tax refund is recorded in accounts receivable.

The following table reconciles income tax expense reported in the financial statements to income taxes that would be obtained by applying regular income tax rates to income before taxes:

Expected benefit (taxes) using regular rates	$ 29,700	$ (23,647)
State minimum fees	(580)	(580)
Tax effects of temporary differences	(14,200)	-
Prior year accrual differences and other	(7,625)	580
Income tax (expense) benefit	$ 7,295	$ (23,647)

ADC CRE net operating loss carryforward was fully utilized in 2015.

The deferred tax assets of $54,000 and $40,000 at December 31, 2016 and 2015 result from differences in accounting for the allowance for doubtful accounts and depreciation for financial and income tax reporting methods.

(Continued)

14. **INCOME TAXES (Continued)**

Realization of the net deferred tax asset is dependent upon sufficient future taxable income during the period that deductible temporary differences are expected to be available to reduce taxable income. Management expects it is more likely than not that the deferred tax asset may not be realized. Accordingly, a valuation allowance of $54,000 as of December 31, 2016 and $40,000 as of December 31, 2015 has been recorded for the entire amount of the net deferred tax asset. The valuation allowance increased by $14,000 in 2016.

15. **CONTINGENCIES**

As of year-end, ADC was involved in litigation arising in the ordinary course of business. It was the opinion of management that the resolution of outstanding claims would not have a material adverse effect on the financial position or results of operations of ADC.

Subsequent to year-end, the matter was resolved with no material adverse effect to ADC.

16. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 12, 2017, the date on which the financial statements were available for issue, and identified no significant further events or transactions to disclose.

SUPPLEMENTARY INFORMATION

AFRICAN DEVELOPMENT CENTER

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2016

	ADC	ADC Financial Services	ADC Commercial Real Estate	ADC Business Consulting	Eliminations	Total
ASSETS						
Current assets:						
Cash	$ 355,181	$ -	$ 43,385	$ 124	$ -	$ 398,690
Certificates of deposit	-	58,464	107,337	-	-	165,801
Accounts receivable, net	116,389	-	12,481	-	(96,330)	32,540
Contributions and grants receivable	278,975	-	-	-	-	278,975
Current portion of loans receivable, net of allowance	620,577	-	-	-	(4,673)	615,904
Total current assets	1,371,122	58,464	163,203	124	(101,003)	1,491,910
Cash - restricted for loans	855,849	-	-	-	-	855,849
Loans receivable, less current portion, net of allowance	793,449	-	-	-	(7,193)	786,256
Land, buildings and equipment, net	27,801	-	1,555,788	-	-	1,583,589
Investment in AfroUniversal Studio, net	-	-	-	-	-	-
Investment in subsidiaries	495,315	-	-	-	(495,315)	-
Total assets	$ 3,543,536	$ 58,464	$ 1,718,991	$ 124	$ (603,511)	$ 4,717,604
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable and accrued expenses	$ 44,611	$ -	$ 113,758	$ -	$ (96,330)	$ 62,039
Funds held for loans	83,890	-	-	-	-	83,890
Accrued interest expense	15,500	-	6,465	-	-	21,965
Tenant security deposits	-	-	4,343	-	-	4,343
Current portion of loan participations	191,540	-	-	-	(1,318)	190,222
Current portion of loan payable to ADC	-	-	3,355	-	(3,355)	-
Current portion of Due to State of Minnesota	85,689	-	-	-	-	85,689
Current portion of long-term debt	186,352	-	240,762	-	-	427,114
Total current liabilities	607,582	-	368,683	-	(101,003)	875,262
Loan participations, less current portion	211,586	-	-	-	-	211,586
Loan payable to ADC	-	-	7,193	-	(7,193)	-
Due to State of Minnesota, less current portion	31,275	-	-	-	-	31,275
Long-term debt, less current portion	1,345,015	-	906,388	-	-	2,251,403
Total liabilities	2,195,458	-	1,282,264	-	(108,196)	3,369,526
Net assets	1,348,078	58,464	436,727	124	(495,315)	1,348,078
Total liabilities and net assets	$ 3,543,536	$ 58,464	$ 1,718,991	$ 124	$ (603,511)	$ 4,717,604

AFRICAN DEVELOPMENT CENTER

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2016

	ADC	ADC Financial Services	ADC Commercial Real Estate	ADC Business Consulting	Eliminations	Total
Support and revenues:						
Contributions	$ 512,413	$ -	$ -	$ -	$ -	$ 512,413
Government grants	216,385	-	-	-	-	216,385
Program service fees	64,004	-	-	-	-	64,004
In-kind contributions	252,425	-	-	-	-	252,425
Rental revenue	-	-	179,984	-	(102,000)	77,984
Interest income - loans	61,207	-	-	-	-	61,207
Interest income - cash accounts	1,717	1,716	122	-	-	3,555
Awards event, net of direct donor expenses of $8,345	1,794	-	-	-	-	1,794
Other income	4,850	-	-	-	-	4,850
Total support and revenues	1,114,795	1,716	180,106	-	(102,000)	1,194,617
Expenses:						
Program services	663,712	-	283,890	-	(85,990)	861,612
Management and general	365,253	-	-	-	(16,010)	349,243
Fundraising	61,496	-	-	-	-	61,496
Total expenses	1,090,461	-	283,890	-	(102,000)	1,272,351
Change in net assets - operating	24,334	1,716	(103,784)	-	-	(77,734)
Income tax refund, net	-	-	7,295	-	-	7,295
Loss on disposal of assets	-	-	(15,022)	-	-	(15,022)
Income from subsidiaries	(109,795)	-	-	-	109,795	-
Total change in net assets	(85,461)	1,716	(111,511)	-	109,795	(85,461)
Net assets - beginning of year	1,433,539	56,748	548,238	124	(605,110)	1,433,539
Net assets - end of year	$ 1,348,078	$ 58,464	$ 436,727	$ 124	$ (495,315)	$ 1,348,078

See independent auditor's report.