AFRICAN DEVELOPMENT CENTER

CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2017

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

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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, 2017, and the related consolidated statements of activities, 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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mahoney Ulbrich
Christiansen Russ P.A.

May 26, 2018

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current assets:		
Cash	$ 323,196	$ 398,690
Certificates of deposit	166,745	165,801
Accounts receivable, net	64,011	32,540
Current portion of contributions and grants receivable	244,400	278,975
Current portion of loans receivable, net of allowance	555,595	615,904
Inventory	1,200	-
Total current assets	1,355,147	1,491,910
Cash - restricted for loans	885,604	855,849
Contributions and grants receivable, less current portion	120,000	-
Loans receivable, less current portion, net of allowance	1,455,333	786,256
Land, buildings and equipment, net	1,731,344	1,583,589
Total assets	$ 5,547,428	$ 4,717,604
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 60,868	$ 62,039
Funds held for loans	29,476	83,890
Accrued interest expense	18,374	21,965
Tenant security deposits	5,368	4,343
Current portion of loan participations	155,479	190,222
Current portion of Due to State of Minnesota	105,389	85,689
Current portion of long-term debt	292,020	427,114
Total current liabilities	666,974	875,262
Loan participations, less current portion	386,224	211,586
Due to State of Minnesota, less current portion	120,766	31,275
Long-term debt, less current portion	2,912,377	2,251,403
Total liabilities	4,086,341	3,369,526
Unrestricted net assets	938,444	966,778
Temporarily restricted net assets	522,643	381,300
Total net assets	1,461,087	1,348,078
Total liabilities and net assets	$ 5,547,428	$ 4,717,604

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017			
	Unrestricted	Temporarily restricted	Total	2016
Support and revenues:				
Contributions	$ 328,711	$ 488,750	$ 817,461	$ 512,413
Government grants	145,513	-	145,513	216,385
Net assets released from time and usage restrictions	347,407	(347,407)	-	-
Program service fees	64,951	-	64,951	64,004
In-kind contributions	116,565	-	116,565	252,425
Restaurant sales, net of discounts	313,713	-	313,713	-
Rental revenue	84,936	-	84,936	77,984
Interest income - loans	70,645	-	70,645	61,207
Interest income - deposit accounts	2,777	-	2,777	3,555
Awards event, net of direct donor benefits of $8,345	-	-	-	1,794
Other income	28,955	-	28,955	4,850
Total support and revenues	1,504,173	141,343	1,645,516	1,194,617
Expenses:				
Program services:				
ADC	777,444	-	777,444	670,503
Social ventures	525,760	-	525,760	191,109
Total program services	1,303,204	-	1,303,204	861,612
Management and general	211,431	-	211,431	349,243
Fundraising	33,228	-	33,228	61,496
Total expenses	1,547,863	-	1,547,863	1,272,351
Change in net assets - operating	(43,690)	141,343	97,653	(77,734)
Income from debt forgiveness	9,816	-	9,816	-
Income tax benefit	5,540	-	5,540	7,295
Loss on disposal of assets	-	-	-	(15,022)
Total change in net assets	(28,334)	141,343	113,009	(85,461)
Net assets - beginning of year	966,778	381,300	1,348,078	1,433,539
Net assets - end of year	$ 938,444	$ 522,643	$ 1,461,087	$ 1,348,078

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017						
	ADC	Social Ventures	Total Program Services	Management and General	Fundraising	Total	2016
Salaries	$ 313,046	$ 89,059	$ 402,105	$ 26,667	$ 11,136	$ 439,908	$ 361,277
Payroll taxes	30,194	6,568	36,762	2,685	1,032	40,479	40,112
Employee benefits	23,288	-	23,288	2,277	1,842	27,407	18,867
Total salaries and related	366,528	95,627	462,155	31,629	14,010	507,794	420,256
Consultants and contractors	16,755	69,821	86,576	16,115	16,115	118,806	20,350
Professional fees	-	9,750	9,750	3,128	-	12,878	12,808
Legal	-	-	-	119,174	-	119,174	258,893
Accounting	15,162	-	15,162	15,428	-	30,590	26,593
Occupancy	16,735	-	16,735	-	-	16,735	15,437
Supplies and office expenses	14,751	23,972	38,723	2,316	-	41,039	21,117
Telecommunications	8,795	668	9,463	1,176	-	10,639	16,614
Information technology	6,348	2,780	9,128	1,498	-	10,626	-
Equipment expenses	4,805	9,774	14,579	847	-	15,426	1,500
Travel and entertainment	12,822	1,231	14,053	1,910	-	15,963	10,091
Dues and subscriptions	9,468	4,304	13,772	1,615	-	15,387	15,273
Marketing and promotions	4,364	11,069	15,433	772	-	16,205	2,143
Meetings and training	3,122	47	3,169	2,839	-	6,008	20,049
Grants and donations	2,040	-	2,040	360	-	2,400	375
Insurance	12,905	7,064	19,969	1,180	191	21,340	14,219
Loan and loan-related expenses	8,813	-	8,813	-	-	8,813	6,801
Provision for loan losses	131,079	-	131,079	-	-	131,079	73,141
AfroUniversal Studio write down	-	-	-	-	-	-	59,324
Interest	52,386	18,328	70,714	2,400	653	73,767	84,188
Licensing and bank fees	-	11,539	11,539	-	-	11,539	-
Building operations	18,777	20,543	39,320	1,245	520	41,085	35,948
Cost of sales - restaurant	-	148,806	148,806	-	-	148,806	-
Utilities	17,576	24,283	41,859	1,166	487	43,512	39,856
Property taxes	5,267	5,762	11,029	349	146	11,524	10,613
Depreciation	48,256	59,884	108,140	4,122	1,106	113,368	103,426
Miscellaneous	690	508	1,198	2,162	-	3,360	3,336
Total expenses before direct donor benefits	777,444	525,760	1,303,204	211,431	33,228	1,547,863	1,272,351
Add: Direct donor benefits of awards event	-	-	-	-	-	-	8,345
Total expenses	$ 777,444	$ 525,760	$ 1,303,204	$ 211,431	$ 33,228	$ 1,547,863	$ 1,280,696

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

Increase (Decrease) in Cash

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 113,009	$ (85,461)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	97,137	103,426
Provision for loan losses	131,079	73,141
Write down of investment in AfroUniversal Studio	-	59,324
Income from debt forgiveness	(9,816)	-
Loss on disposal of assets	-	15,022
Interest reinvested on certificates of deposit	(944)	(1,836)
Changes in operating assets and liabilities:		
Accounts receivable	(31,471)	(8,211)
Contributions receivable	(85,425)	26,097
Prepaid expenses and lease deposit	(1,200)	-
Accounts payable and other accrued expenses	(1,171)	1,657
Deferred revenue	-	(6,500)
Accrued interest	(3,591)	12,992
Tenant security deposits	1,025	(2,367)
Net cash from operating activities	208,633	187,284
Cash flows from investing activities:		
Loans issued	(1,263,167)	(716,060)
Collections on loans	457,960	539,624
Change in cash - restricted for loan programs	(29,755)	26,566
Purchase of building improvements and equipment	(244,892)	(15,550)
Net cash from investing activities	(1,079,854)	(165,420)
Cash flows from financing activities:		
Funds received from participatory lenders	452,500	145,000
Funds paid to participatory lenders	(192,469)	(171,505)
Proceeds of long-term debt	792,549	35,000
Payments of long-term debt	(256,853)	(130,928)
Payment of line of credit	-	(63,000)
Net cash from financing activities	795,727	(185,433)
Net increase (decrease) in cash	(75,494)	(163,569)
Cash - beginning of year	398,690	562,259
Cash - end of year	$ 323,196	$ 398,690
Supplemental cash flow information:		
Cash paid for interest expense	$ 77,358	$ 71,196
Cash paid for income taxes	$ -	$ 28,342
Participant loan losses forgiven	$ 15,246	$ 54,312

See accompanying notes to consolidated financial statements.

1. ORGANIZATION

The African Development Center (ADC) is a nonprofit 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.

Empowerment and success program 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.

Social Ventures:

ADC makes capital investments in social ventures as part of its mission to support community based business and grow revenue for organizational self-sufficiency. This program includes its affiliates and consists of ADC CRE's commercial rent activity and Jambo! Coffee & Deli.

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., ADC Business Consulting Inc., and Jambo! Deli & Coffee, LLC. 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.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Jambo! Deli & Coffee LLC is a restaurant located in the retail space of the ADC Headquarters Building which began operations in 2017. 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 purpose 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.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Accounts receivable are reported net of an allowance of $20,220 at December 31, 2016, and no allowance at December 31, 2017.

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 for 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.

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

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 – Lending amounts provided by the State of Minnesota and participating lenders are presented as liabilities.

Land, Buildings, and Equipment - Land, buildings, 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. An impairment of $59,324 was recognized in 2016 to write off ADC's investment in AfroUniversal Studio. No impairment was recognized in 2017.

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 $116,565 in 2017 and $250,000 in 2016.

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

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Sales Revenue - Sales revenue is recognized at the time the customer takes possession of the food and beverages.

Sales Tax – ADC collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point, this account represents the net amount owed to the taxing authority for amounts collected but not yet remitted.

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, 2016, 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.

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 2017 or 2016. Management believes that ADC and its subsidiaries have no uncertain income tax positions.

(Continued)

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

ADC FS, ADC CRE, and ADC BC are taxable corporations and file separate Federal income tax returns and a combined Minnesota income tax return. Jambo! Deli and Coffee LLC is a disregarded entity included in the income tax return of ADC CRE.

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.

3. **CONTRIBUTIONS AND GRANTS RECEIVABLE**

Contributions receivable of $244,400 are due to be collected in 2018 and $120,000 in 2019.

4. **LOANS RECEIVABLE**

Loans receivable consist of the following:

	2017	2016	Number of loans at December 31, 2017
Small business loans	$2,224,696	$1,554,972	170
Allowance for loan losses	(213,768)	(152,812)	
	2,010,928	1,303,180	
Less current portion	(555,595)	(615,904)	
	$ 1,455,333	$ 786,256	

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.

4. **LOANS RECEIVABLE (Continued)**

- **Conventional loans** – Interest bearing loans are 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 follows:

	2017		2016	
Current	$ 1,809,073	81%	$ 1,310,717	84%
1 – 30 days	236,486	11%	112,668	7%
31 – 60 days	108,123	5%	43,200	3%
61 – 90 days	-	0%	-	0%
Over 90 days	71,014	3%	88,387	6%
	$ 2,224,696	100%	$ 1,554,972	100%

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

	2017	2016
Beginning balance	$ 152,812	$ 114,123
Provision for loan losses	131,079	73,141
Loans written off	(70,123)	(34,452)
Ending balance	$ 213,768	$ 152,812

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, 2017:

- There were no changes in ADC's accounting policies during the year. There have been no purchases, sales, or reclassifications of financing receivables.
- One loan of $44,458 is currently being restructured. The loan is included in the allowance calculation.

(Continued)

5. LOAN PARTICIPATIONS

The Minneapolis Community Planning and Economic Development Department (CPED), the Metropolitan Consortium of Community Developers (MCCD), the Neighborhood Development Center (NDC), and Metropolitan Economic Development Association (MEDA) participate in loans with ADC. ADC services the loans and repays these organizations as loans are collected; the participating lenders bear the risk of loss on those loans.

Loan participations consist of the following:

	2017	2016
CPED loan participations	$ 160,053	$ 189,484
MCCD loan participations	60,875	76,361
NDC loan participations	37,158	42,308
MEDA loan participation	283,617	93,655
	541,703	401,808
Less current portion	(155,479)	(190,222)
	$ 386,224	$ 211,586

6. DUE TO STATE OF MINNESOTA

ADC participates in the Emerging Entrepreneur Loan Program (ELP) sponsored by the State of Minnesota's Department of Employment and Economic Development (MN DEED) under two contracts with funding commitments of $750,000 and $330,000. Under the ELP program, ADC services the loans and repays MN DEED as loans are collected. Interest earned is retained by ADC to cover administrative costs. 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 under the first contract ($750,000) may be made for a maximum of $25,000 (up to $50,000 if a private lender is participating in the loan). Loans under the second contract ($330,000) must be at least $5,000 up to $150,000 and may not exceed 50% of each loan, except for qualifying microenterprise loans. Loans to qualifying microenterprise borrowers may be at least $5,000 up to $50,000 with no matching requirements. The first contract ended and no new loans are being made. ADC still services the outstanding loans and remits collected payments to MN DEED. The second contract began in 2017 and has a termination date of January 5, 2022.

(Continued)

6. DUE TO STATE OF MINNESOTA (Continued)

Due to the State of Minnesota consists of:

	2017	2016
Current portion	$ 105,389	$ 85,689
Long-term portion	120,766	31,275
Total Due to State of Minnesota	$ 226,155	$ 116,964

7. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following:

	2017	2016	Estimated useful lives (in years)
ADC:			
Computers and equipment	$ 267,543	$ 253,519	3 - 7
Affiliates:			
Land	170,127	170,127	-
Buildings	814,831	814,831	30
Building improvements	1,188,154	1,131,378	5 - 30
Equipment and vehicles	201,573	11,251	5 - 7
	2,642,228	2,381,106	
Less accumulated depreciation	(910,884)	(797,517)	
	$ 1,731,344	$ 1,583,589	

8. LONG-TERM DEBT

Notes payable consists of the following:

	2017	2016
ADC:		
Wells Fargo EQ2 loans	$ 312,500	$ 468,659
BMO Harris EQ2 loan	500,000	500,000
SBA microloan	229,693	290,959
SBA microloan #2	250,000	-
MN DEED promissory note	296,903	271,750
Blandin Foundation	200,000	-
Minneapolis Foundation	300,000	-
St. Paul Port Authority	7,578	-
ADC CRE:		
MMCDC loan	807,307	825,521
Park Midway Bank	35,100	50,941
City of Minneapolis	200,000	200,000
City of Minneapolis	-	1,317
Bremer Bank	65,316	69,370
	3,204,397	2,678,517
Less current portion	(292,020)	(427,114)
	$ 2,912,377	$ 2,251,403

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 10 year Treasury obligation rate minus 3.5% determined as of the tenth anniversary of the date of loan, until the loan is fully paid (2% at December 31, 2017). Interest is payable quarterly.

The outstanding principal balance of the loan and accrued interest was 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. The outstanding balance at December 31, 2017, was $62,500.

8. 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 – 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 was payable quarterly. The original agreement matured March 31, 2018. The loan was extended and the agreement requires quarterly principal payments of $25,000 plus interest beginning March 31, 2018. The loan matures December 31, 2022.

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, 2017, 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)

8. LONG-TERM DEBT (Continued)

SBA microloan #2 – Loan agreement with the U. S. Small Business Administration (SBA) for $250,000 under the microloan program dated June 7, 2017. The loan is to be used to make loans for community development purposes. The loan has an interest rate equal to 2.00%.

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 0% 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 2% minus a buy-down of 1.25% for an accrual rate of .75%, 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, 2017, the interest rate was .75%.

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 $2,315 begin the thirteenth month, along with the deferred interest calculated in the first year, through June 7, 2027.

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.

MN DEED – Note payable to MN DEED in the original amount of $271,500 without interest dated May 25, 2012. The note was amended to $306,721 February 25, 2017. The loan is 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. During 2017, $9,817 was forgiven.

(Continued)

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

Blandin Foundation – Note payable to Charles K. Blandin Foundation through a Program Related Investment (PRI) loan agreement for $200,000 dated June 22, 2017, with no interest. Principal is due at maturity, June 22, 2027. Unsecured.

Minneapolis Foundation – Note payable to Minneapolis Foundation for $300,000 dated July 1, 2017, with interest at 2%. Annual interest payments are due and payable July 1. Principal is due at maturity, July 1, 2022. Unsecured.

St. Paul Port Authority – Note payable to St. Paul Port Authority through the Property Assessed Clean Energy (PACE) program for $7,578 dated December 23, 2015, with interest at 4.5%. Equal payments of approximately $1,700 are due and payable semi-annually beginning May 1, 2019, through an assessment made on the Willmar building's property taxes with a final balloon payment. The note matures December 1, 2023. Unsecured.

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 were due annually beginning September 3, 2010. Principal and interest were due on September 3, 2016. The loan was modified during 2017. The modified mortgage requires monthly principal and interest payments of $1,835 beginning January 15, 2018, with interest at 2%, and is due January 1, 2028. Secured by the ADC Headquarters Building and assignment of all rents.

8. 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. The note matured June 1, 2016. Secured by accounts, inventory, equipment, and general intangibles as described in the security agreement. The note repaid in 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, 2017). 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:

2018	$ 292,020
2019	251,160
2020	484,821
2021	982,430
2022	732,811
Thereafter	461,155
	$ 3,204,397

9. LINE OF CREDIT

ADC has a $150,000 line of credit from Western Bank for general operating purposes. The line of credit matures August 4, 2018. The interest rate is 1% over the Wall Street Journal Prime Rate, however, the rate will never be less than 5%. At December 31, 2017 and 2016, there were no advances and the interest rate was 5%. Advances are secured by accounts receivable, equipment and general intangibles.

10. NET ASSETS

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

	2017	2016
Program services in greater Minnesota	$ 150,000	$ 75,000
Business development – African immigrants	165,000	50,000
Upgrade technology	-	36,000
Homeownership capacity building	40,000	22,800
Foodtruck	43,893	155,000
Staffing, Wilder report, and market research	93,750	-
Financial education	-	37,500
Other program activities	30,000	5,000
	$ 522,643	$ 381,300

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

11. 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. Jambo! Deli occupies the retail space.

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

2018	$ 29,625
2019	23,817
	$ 52,442

12. 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, 2017, deposits exceeded the federally insured limit by $902,087.

12. CONCENTRATIONS (Continued)

ADC received 38% ($150,000, $312,000, and $165,000 totaling $627,000) of its support and revenue from three foundations in 2017.

ADC received 13% ($150,000) of its support and revenue from a foundation in 2016. Donated legal services represent 21% of 2016 support and revenue.

13. INCOME TAXES

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

	2017	2016
Current income tax (expense) benefit	$ 5,540	$ 7,295

A federal tax refund of $17,530 and $11,990 is recorded in accounts receivable as of December 31, 2017 and 2016.

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	$ 39,800	$ 29,700
State minimum fees	(590)	(580)
Deferred tax asset valuation allowance	(34,800)	(14,200)
Prior year accrual differences and other	1,130	(7,625)
Income tax (expense) benefit	$ 5,540	$ 7,295

The deferred tax assets of $88,800 and $54,000 at December 31, 2017 and 2016, result from differences in accounting for the allowance for doubtful accounts and depreciation for financial and income tax reporting methods.

Net operating loss carryforwards of $165,000 for federal and $136,000 for state are available to reduce future taxable income.

(Continued)

13. INCOME TAXES (Continued)

Realization of the net deferred tax asset and net operating loss carryforwards are 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 $94,500 as of December 31, 2017 and $54,000 as of December 31, 2016 has been recorded for the entire amount of the net deferred tax asset. The valuation allowance increased by $40,500 in 2017 and $14,000 in 2016.

14. COMMITMENTS

ADC entered into a five-year agreement with a third party for management of Jambo! Deli & Coffee effective April 5, 2017. Within 180 days before the termination date, the agreement can be renewed for another five years. Payment is 50% of net income as defined in the agreement.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 26, 2018, the date on which the financial statements were available for issue, and identified no significant events or transactions to disclose.