AFRICAN DEVELOPMENT CENTER

CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2020

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

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Mahoney
CPAS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
African Development Center
Minneapolis, Minnesota

Report on the Financial Statements

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, 2020, 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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)

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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, 2020, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited African Development Center's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 14, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2021, on our consideration of African Development Center and subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of African Development Center and subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering African Development Center and subsidiaries' internal control over financial reporting and compliance.

Mahoney Ulbrich Christiansen Russ P.A.

August 8, 2021

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets:		
Cash	$ 1,816,164	$ 556,547
Accounts receivable, net	12,937	9,894
Current portion of contributions and grants receivable	212,413	212,944
Current portion of loans receivable, net of allowance	818,310	793,308
Prepaid expenses	3,652	3,749
Total current assets	2,863,476	1,576,442
Cash - restricted for loans	4,293,921	1,721,986
Contributions and grants receivable, less current portion	-	75,000
Loans receivable, less current portion, net of allowance	3,694,085	2,467,631
Assets held for sale	87,123	-
Land, buildings and equipment, net	1,294,166	1,489,784
Total assets	$ 12,232,771	$ 7,330,843
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 47,709	$ 112,970
Refundable advances	26,500	-
Funds held for grants and loans	415,265	74,212
Accrued interest expense	48,575	35,299
Tenant security deposits	5,743	6,543
Lines of credit / note payable	22,851	35,500
Current portion of loan participations	91,025	114,844
Current portion of due to CPED	54,492	69,059
Current portion of due to State of Minnesota	121,077	114,996
Current portion of long-term debt	1,176,321	361,107
Total current liabilities	2,009,558	924,530
Loan participations, less current portion	94,546	122,778
Due to CPED, less current portion	53,936	66,442
Due to State of Minnesota, less current portion	1,197,526	224,561
Long-term debt, less current portion	4,990,117	4,123,598
Total liabilities	8,345,683	5,461,909
Net assets		
Without donor restrictions:		
Undesignated	2,370,084	1,122,066
Designated - loan loss reserve	175,978	181,868
Total without donor restrictions	2,546,062	1,303,934
With donor restrictions	1,341,026	565,000
Total net assets	3,887,088	1,868,934
Total liabilities and net assets	$ 12,232,771	$ 7,330,843

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

	2020			
	Without Donor Restrictions	With Donor Restrictions	Total	2019
Support and revenues:				
Contributions	$ 103,291	$ 365,000	$ 468,291	$ 596,543
Government grants	1,474,631	-	1,474,631	359,758
PPP loan forgiveness	90,300	-	90,300	-
Net assets released from time and usage restrictions	338,974	(338,974)	-	-
Program service fees	39,716	-	39,716	40,582
In-kind contributions	2,983	-	2,983	76,200
Rental revenue	70,158	-	70,158	74,426
Interest income - loans	223,220	-	223,220	186,107
Interest income - deposit accounts	7,967	-	7,967	4,258
Other income	18,002	-	18,002	3,107
Total support and revenues	2,369,242	26,026	2,395,268	1,340,981
Expenses:				
Program services:				
Empowerment and success	886,466	-	886,466	890,097
Social ventures	161,271	-	161,271	280,020
Total program services	1,047,737	-	1,047,737	1,170,117
Management and general	184,297	-	184,297	130,049
Fundraising	73,834	-	73,834	38,489
Total expenses	1,305,868	-	1,305,868	1,338,655
Change in net assets - operating	1,063,374	26,026	1,089,400	2,326
Government grants / contributions - lending	-	950,000	950,000	200,000
Net assets released from usage restrictions - loan fund	200,000	(200,000)	-	-
Loss on impairment	(21,246)	-	(21,246)	-
Total change in net assets	1,242,128	776,026	2,018,154	202,326
Net assets - beginning of year	1,303,934	565,000	1,868,934	1,666,608
Net assets - end of year	$ 2,546,062	$ 1,341,026	$ 3,887,088	$ 1,868,934

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

	2020						
	Empowerment and success	Social Ventures	Total Program Services	Management and General	Fundraising	Total	2019
Salaries	$ 363,368	$ 33,558	$ 396,926	$ 48,817	$ 53,500	$ 499,243	$ 429,719
Payroll taxes	26,670	-	26,670	2,992	3,922	33,584	29,953
Employee benefits	37,065	-	37,065	3,812	422	41,299	37,181
Total salaries and related	427,103	33,558	460,661	55,621	57,844	574,126	496,853
Consultants and contractors	33,851	-	33,851	75,754	-	109,605	47,973
Professional fees	6,454	12,990	19,444	3,849	356	23,649	8,743
Legal	2,391	400	2,791	-	-	2,791	79,676
Accounting	20,991	-	20,991	24,606	-	45,597	40,310
Occupancy	25,077	-	25,077	-	-	25,077	6,603
Supplies and office expenses	15,895	13,127	29,022	2,038	2,445	33,505	32,325
Telecommunications	7,559	-	7,559	969	1,163	9,691	9,595
Information technology	1,174	-	1,174	150	181	1,505	1,974
Equipment expenses	32,655	248	32,903	635	-	33,538	7,618
Travel and entertainment	1,664	330	1,994	1,110	-	3,104	30,541
Dues and subscriptions	6,577	-	6,577	2,485	-	9,062	5,837
Marketing and promotions	164	-	164	551	-	715	802
Meetings and training	2,792	-	2,792	818	-	3,610	11,290
Grants and donations	39,959	-	39,959	1,038	-	40,997	790
Insurance	9,547	3,141	12,688	1,212	1,421	15,321	16,263
Loan and loan-related expenses	30,604	-	30,604	-	-	30,604	27,347
Provision for loan losses	60,000	-	60,000	-	-	60,000	152,382
Interest	86,598	20,579	107,177	2,665	2,206	112,049	117,829
Licensing and bank fees	-	118	118	-	-	118	631
Building operations	9,214	11,588	20,802	1,133	1,241	23,176	53,114
Utilities	11,236	14,132	25,368	1,382	1,515	28,265	31,736
Property taxes	5,897	7,416	13,313	725	795	14,833	13,739
Depreciation	48,397	43,550	91,947	6,686	4,667	103,300	138,895
Miscellaneous	667	93	760	870	-	1,630	5,789
Total expenses	$ 886,466	$ 161,270	$ 1,047,736	$ 184,297	$ 73,834	$ 1,305,868	$ 1,338,655

See accompanying notes to consolidated financial statements.

AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 2,018,154	$ 202,326
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	103,300	138,895
Provision for loan losses	60,000	152,382
Government grants / contributions for lending	(950,000)	(200,000)
Income from PPP loan forgiveness	(90,300)	-
Loss on impairment	21,246	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,043)	42,820
Contributions and grants receivable	1,025,531	812,056
Prepaid expenses	97	(2,224)
Accounts payable and other accrued expenses	(65,261)	5,379
Refundable advances	26,500	-
Accrued interest	13,276	25,355
Tenant security deposits	(800)	1,675
Net cash from operating activities	2,158,700	1,178,664
Cash flows from investing activities:		
Loans issued	(2,254,104)	(1,769,396)
Collections on loans	933,491	818,196
Purchase of building improvements and equipment	(16,051)	(15,341)
Redemption of certificates of deposit	-	58,571
Net cash from investing activities	(1,336,664)	(907,970)
Cash flows from financing activities:		
Funds received from participatory lenders	1,485,902	225,000
Funds paid to participatory lenders	(235,770)	(257,532)
Proceeds of PPP loan	90,300	-
Payments of long-term debt	1,681,733	(24,488)
Payments on lines of credit / note payable	(12,649)	-
Net cash from financing activities	3,009,516	(57,020)
Net increase in cash, cash equivalents, and restricted deposits	3,831,552	213,674
Cash, cash equivalents, and restricted deposits - beginning of year restated	2,278,533	2,064,859
Cash, cash equivalents, and restricted deposits - end of year	$ 6,110,085	$ 2,278,533
Reconciliation to the consolidated statements of financial position		
Cash	$ 1,816,164	$ 556,547
Cash - restricted for loans	4,293,921	1,721,986
	$ 6,110,085	$ 2,278,533
Supplemental cash flow information:		
Cash paid for interest expense	$ 98,773	$ 92,474
Participants' share of loan losses	$ 9,160	$ 34,858

See accompanying notes to consolidated financial statements.

1. **ORGANIZATION**

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 subsidiaries and consists of ADC CRE's commercial rent activity and Jambo! Deli & Coffee.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation - The consolidated financial statements include African Development Center, ADC Commercial Real Estate, Inc., and Jambo! Deli & Coffee LLC. The consolidated corporations are wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

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.

Jambo! Deli & Coffee LLC (Jambo!) was a restaurant located in the retail space of the ADC Headquarters Building which began operations in 2017. The restaurant was closed effective November 2018. 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 – Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other activities specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The statement of activities presents operating activities separate from government grants and contributions for lending. Management believes that this presentation assists users of the financial statements with understanding the activities.

Cash Equivalents - Cash restricted for loans and certificates of deposit are considered cash equivalents.

(Continued)

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

Cash – Restricted for Loans - Cash – restricted for loans represents unspent loan proceeds, loan payments received to be used for lending, contributions and grants received for lending and cash and loan collections to be remitted to loan participants. Cash – restricted for loans also includes loan loss reserves required by lenders and established internally.

Accounts, Contributions and Grants Receivable – Accounts, contributions 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. No allowance is recorded as of December 31, 2020 and 2019.

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.

(Continued)

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

Funds held for loans represent amounts received from loan participants which have not yet been disbursed and loan collections to be remitted to the State of Minnesota or loan participants.

Due to State of Minnesota, CPED, and Loan Participations – Lending amounts provided by the State of Minnesota, CPED, and participating lenders are presented as liabilities.

Assets Held for Sale – Assets held for sale include equipment and a vehicle formally used with Jambo!. The amount represents the original cost less accumulated depreciation up until the time the assets were removed from service.

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 - ADC reviews its land, buildings, and equipment and assets held for sale for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss in the amount of $21,246 related to assets held for sale was recorded during 2020. No impairment loss was recorded during 2019.

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 net assets with donor restrictions. Contributions with donor-imposed restrictions that expire in the same fiscal year the contribution is recognized are reported as net assets without donor restrictions.

Contributions of cash or other assets to be used to acquire property or equipment are reported as revenues under net assets with donor restrictions. The restrictions are considered to be released at the time the property or equipment is placed into service.

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 $2,983 in 2020 and $76,200 in 2019.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government Grants - Government grants are accounted for as contributions. Government grants and contracts are considered conditional based upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Revenue is recognized when eligible expenditures or performance requirements, as defined in each grant or contract, are incurred or met. Funds received in advance are recorded as refundable advances.

Program Service Fees - Program service fees consist primarily of training and financial literacy fees and are recorded as revenue when received, which approximates when the service is performed.

Rental Revenues - Rental revenues on leases are recognized over the period to which they relate. 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 or functional expenses. 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, 2019, from which the summarized information was derived.

Functional Allocation of Expenses - Expenses have been recorded directly to program and supporting services when applicable. Expenses which are common to program and to supporting services have been allocated by management. Salaries are allocated based on estimates of how each employee spends his or her time. Shared building costs of interest, depreciation, operations, utilities, and property taxes are first allocated by square footage between ADC and its subsidiary ADC CRE. Subsequently, expenses attributed to ADC are allocated based on salaries allocations. Office expenses and supplies, telecommunications, information technology, and insurance are also allocated based on salaries allocations. The remaining ADC CRE expenses are recorded as program.

Reclassifications - Certain reclassifications have been made to the prior year financial statements to be consistent with the current year classifications. The reclassifications were related to the implementation of new accounting standards and did not affect net assets or the change in net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2020 or 2019. Management believes that ADC and its subsidiaries have no uncertain income tax positions.

ADC CRE is a taxable corporation and files a separate Federal income tax return and a combined Minnesota income tax return. Jambo! Deli & Coffee LLC is a disregarded entity included in the income tax return of ADC CRE.

3. LIQUIDITY AND AVAILABILITY

As part of its liquidity management, ADC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. ADC and its subsidiaries have their own budgets which are monitored monthly versus actual results. For purposes of analyzing resources available to meet general expenditures over the next year, ADC considers all expenditures related to its ongoing activities to be general expenditures.

To help manage unanticipated liquidity needs, ADC has a committed line of credit of $150,000 (Note 10) which it could draw upon.

Financial assets available for general expenditure within one year of December 31, comprise the following:

	2020	2019
Cash	$ 1,816,164	$ 556,547
Accounts receivable, net	12,937	9,894
Contributions and grants receivable	212,413	212,944
Less unavailable for general expenditures within one year:		
Contributions and grants receivable	-	(75,000)
	$ 2,041,514	$ 704,385

4. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable of $212,413 are due to be collected in 2021.

5. LOANS RECEIVABLE

Loans receivable consist of the following:

	2020	2019	Number of loans at December 31, 2020
Small business loans	$ 4,985,864	$ 3,703,002	196
Allowance for loan losses	(473,469)	(442,063)	
	4,512,395	3,260,939	
Less current portion	(818,310)	(793,308)	
	$ 3,694,085	$ 2,467,631	

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

ADC participates in the Small Business Administration (SBA) Community Advantage program. SBA Community Advantage loans are federally insured ranging from 75% to 85% of the total loan, depending on size. As of December 31, 2020 and 2019, total loans outstanding under this program are $902,473 and $925,352 of which $706,968 and $727,900 is insured by the SBA.

5. **LOANS RECEIVABLE (Continued)**

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

	2020		2019	
Current	$ 3,563,150	72%	$ 2,633,516	71%
1 – 30 days	1,064,478	21%	587,534	16%
31 – 60 days	112,881	2%	252,430	7%
61 – 90 days	-	0%	-	0%
Over 90 days	245,355	5%	229,522	6%
	$ 4,985,864	100%	$ 3,703,002	100%

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

	2020	2019
Beginning balance	$ 442,063	$ 317,659
Provision for loan losses	60,000	152,382
Loan recoveries	-	-
Loans written off	(28,594)	(27,978)
Ending balance	$ 473,469	$ 442,063

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, 2020:

- There were no changes in ADC's accounting policies during the year. There have been no purchases, sales, or reclassifications of financing receivables.
- Management regularly reviews loans for impairment. Management has determined one loan funded through the MN DEED EEF program is considered impaired.

(Continued)

6. LOAN PARTICIPATIONS

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:

	2020	2019
MCCD loan participations	45,825	50,401
NDC loan participations	26,108	26,318
MEDA loan participations	113,638	160,903
	185,571	237,622
Less current portion	(91,025)	(114,844)
	$ 94,546	$ 122,778

7. DUE TO CPED

The Minneapolis Community Planning and Economic Development Department (CPED) participates in loans with ADC. ADC services the loan and repays the City as loans are collected. ADC and the City review loan collection status on a regular basis. The City bears the risk of loss on these loans.

	2020	2019
CPED loan participations	$ 108,428	$ 135,501
Less current portion	(54,492)	(69,059)
	$ 53,936	$ 66,442

(Continued)

8. 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 $2,187,500. 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 ($2,187,500) 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.

Due to the State of Minnesota consists of:

	2020	2019
Current portion	$ 121,077	$ 114,996
Long-term portion	1,197,526	224,561
Total Due to State of Minnesota	$1,318,603	$ 339,557

9. ASSETS HELD FOR SALE

Assets held for sale consist of kitchen equipment recorded at $57,162 and a food truck recorded at $29,961.

During 2020, ADC made the decision not to reopen Jambo! and to sell the restaurant's kitchen equipment and vehicles. An impairment entry of $21,246 was recorded against the carrying amount to reflect the fair value of the assets.

10. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following:

	2020	2019	Estimated useful lives (in years)
ADC:			
Computers and equipment	$ 305,641	$ 289,590	3 - 7
Affiliates:			
Land	170,127	170,127	-
Buildings	814,831	814,831	30
Building improvements	1,188,154	1,188,154	5 - 30
Equipment and vehicles	11,251	213,486	5 - 7
	2,490,004	2,676,188	
Less accumulated depreciation	(1,195,838)	(1,186,404)	
	$ 1,294,166	$ 1,489,784	

11. LINES OF CREDIT / NOTE PAYABLE

ADC has a $150,000 line of credit from Western Bank for general operating purposes. The line of credit matures September 4, 2021. The interest rate is 1% over the Wall Street Journal Prime Rate, however, the rate will never be less than 5%. At December 31, 2020 and 2019, there were no outstanding advances. Advances are secured by accounts receivable, equipment and general intangibles.

Effective June 2018, Jambo! had a $50,000 line of credit from American National Bank for general operating purposes. The interest rate was 2.5% over the Wall Street Journal Prime Rate, however, the rate will never be less than 6.75%.

In February 2020 the advances on the line of credit were converted into a note payable. The interest rate of the note payable is 2.0% over the Wall Street Journal Prime Rate (6.75% at December 31, 2020). Monthly principal and interest payments of $1,326 are due. The note matures February 7, 2022. Secured by assets, equipment and a food truck.

This loan was paid in full on February 9, 2021.

AFRICAN DEVELOPMENT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

12. **LONG-TERM DEBT**

Long-term debt consists of the following:

	2020	2019
ADC:		
Wells Fargo EQ2 loans	$ 250,000	$ 250,000
BMO Harris EQ2 loan	226,744	300,000
SBA microloan	42,423	105,499
SBA microloan #2	183,804	211,330
SBA microloan #3	464,249	247,688
MN DEED promissory note	296,904	296,904
Blandin Foundation	200,000	200,000
Minneapolis Foundation	300,000	300,000
Minneapolis Foundation	200,000	200,000
St. Paul Port Authority	7,578	7,578
MMCDC Loan	300,060	300,060
Initiative Foundation	70,000	70,000
Otto Bremer Trust	1,000,000	1,000,000
PRI Women Foundation of MN	150,000	-
PRI Northwest Area Foundation	500,000	-
PRI Opportunity Finance Network	1,000,000	-
Subtotal	5,191,762	3,489,059
ADC CRE:		
MMCDC loan	763,325	768,166
Park Midway Bank	-	4,072
City of Minneapolis	155,416	164,817
Bremer Bank	54,489	58,591
	6,164,992	4,484,705
Less current portion	(1,176,321)	(361,107)
	$ 4,988,671	$ 4,123,598

(Continued)

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

ADC:

Wells Fargo EQ2 loan – EQ2 loan agreement with the Wells Fargo Community Development Corporation for $250,000 dated January 15, 2010. The loan is to be used to make loans for community development purposes. The interest rate is 2% for the first ten years of the loan. Interest is payable quarterly. Principal and unpaid interest were due March 15, 2020. Within 30 days prior to maturity, ADC was able to request an extension of two additional years.

On April 24, 2020, ADC obtained an extension for two years, with a new maturity date of March 15, 2022. Additionally, quarterly principal and interest payments of $31,250 are due.

On July 28, 2020, the loan was restructured into a note payable to Wells Fargo for $250,000 with interest at 2%. Interest shall be paid quarterly commencing on the disbursement date through the date that the entire principal amount has been repaid in full. Effective as of the 5th anniversary of the disbursement date, eight quarterly principal payments of $31,250 will be made to fully repay the Loan by the maturity date of July 28, 2027.

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%.

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

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, 2020, 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. Due to the pandemic, a final settlement has not been officially made as the SBA has focused its resources in other matters.

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.

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%.

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.

(Continued)

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

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, 2020, the interest rate was .75%.

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.

SBA microloan #3 – Loan agreement with the U. S. Small Business Administration (SBA) for $500,000 under the microloan program dated November 21, 2018. The loan is to be used to make loans for community development purposes. The loan has an interest rate equal to 0.75%.

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 $4,819 begin the thirteenth month, along with the deferred interest calculated in the first year, through November 11, 2028.

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 0.75% 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 2.75% minus a buy-down of 1.25% for an accrual rate of 1.5%, 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, 2020, the interest rate was .75%.

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

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 on 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.

Blandin Foundation – Note payable to Charles K. Blandin Foundation (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.

Minneapolis Foundation – Note payable to Minneapolis Foundation for $200,000 dated August 1, 2018, with interest at 2%. Annual interest payments are due and payable August 1. Principal is due at maturity, August 1, 2023. 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 at maturity, December 1, 2023. Unsecured.

MMCDC – Note payable to MMCDC for $500,000 dated April 30, 2018. Interest payments are due monthly at a rate of 4.25% commencing June 1, 2018. Principal is due at maturity on May 1, 2025. Secured by the proceeds and receivables arising from the loan and ADC's assets. As of December 31, 2019, $300,060 has been advanced.

(Continued)

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

Initiative Foundation – Note payable to Initiative Foundation for $250,000 dated August 4, 2018, with interest at 3%. Quarterly interest payments are due commencing April 15, 2018. Principal is due at maturity on March 15, 2025. Secured by the proceeds, rights and interests arising from the loan. As of December 31, 2019, $70,000 has been advanced.

Otto Bremer Trust – Note payable the Otto Bremer Trust for $1,000,000 dated December 14, 2018, with interest at 3%. Equal interest payments of $30,000 are due annually commencing January 14, 2020 until January 14, 2023. Beginning January 14, 2024, both principal and interest payments will be due annually until maturity January 14, 2026. Unsecured.

PRI Women Foundation of MN – Note payable to Women's Foundation of Minnesota for $150,000 dated June 25, 2020, with interest at 1.5%. Equal interest payments of $2,250 are due annually commencing July 1, 2020 until July 1, 2028. Principal is due at maturity on July 1, 2028.

PRI Northwest Area Foundation – Note payable to Northwest Area Foundation for $500,000 dated July 1, 2020, with interest at 1%. Interest payment of $1,250 will be paid on June 30, 2021. Thereafter, equal interest payments of $5,000 are due annually commencing on June 30, 2022 until June 20, 2027. Principal is due on maturity at June 30, 2027.

PRI Opportunity Finance Network – Note payable to Opportunity Finance Network in the original amount of $1,500,000 dated December 16, 2020, with interest at 1% through September 20, 2021, and the fixed interest rate of 3% beginning October 1, 2021 through the maturity date. Interest payments are due quarterly commencing on June 30, 2021. Quarterly payment dates are the last business day of each March, June, September, December, and the Maturity Date of May 31, 2030. Principal is due on or before the maturity date of May 31, 3030. At December 31, 2020, ADC has drawn $1,000,000.

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

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 matured January 1, 2021.

The mortgage was amended on March 17, 2021, with interest at 4.25%. Equal payments of $4,727 are due and payable commencing April 1, 2021. The note matures April 1, 2031.

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 were 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. Mortgage was paid off in 2020.

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 initially 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.

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, 2020). Payable in monthly principal and interest payments of $600. A final principal and unpaid interest payment was due June 9, 2021. Management is currently in negotiations with the bank to extend the mortgage. Secured by the Willmar Building.

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

Maturities of funded long-term debt are as follows:

2021	$ 1,176,321
2022	941,642
2023	298,188
2024	195,376
2025	567,486
Thereafter	2,987,425
	$ 6,166,438

13. **NET ASSETS**

Below summarizes the change in net assets without donor restrictions – operating:

	2020	2019
African Development Center	$1,136,119	$ 68,916
Subsidiaries	(72,745)	(156,590)
	$ 1,063,374	$ (87,674)

ADC, internally and by lender requirements, has established a loan loss reserve fund. The funds will be used to supplement future losses for current loans receivable. ADC is in compliance with the loan loss reserve requirements for the Community Advantage Pilot Program of the SBA.

Net assets with donor restrictions are classified according to their main restriction. Some of the restrictions have components of both time and purpose restrictions.

13. NET ASSETS (Continued)

Net assets with donor restrictions are available for use in future periods for:

	2020	2019
Subject to expenditure for specified purpose:		
Development services	$100,000	$ 50,000
Business development – African immigrants	31,300	20,000
Homeownership capacity building	114,000	120,000
Lending	925,000	175,000
Loan loss reserve	95,726	50,000
Subject to the passage of time:		
General operations	75,000	150,000
	$ 1,341,026	$ 565,000

14. 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! occupied the retail space which was vacant in 2020 and 2019.

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

2021	$ 15,900
2022	18,750
2023	20,550
2024	12,600

15. 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, 2020 and 2019, deposits exceeded the federally insured limit by $5,490,167 and $1,758,487.

ADC received 36% ($350,000 and $865,000) of its support and revenue from a foundation and a governmental agency in 2020.

ADC received 32% ($500,000) of its support and revenue from one foundation in 2019.

16. INCOME TAXES

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	$ 76,413	$ 47,700
State minimum fees	(620)	(610)
Deferred tax asset valuation allowance	(60,800)	(5,800)
Prior year accrual differences and other	(14,993)	(41,290)
Income tax (expense) benefit	$ -	$ -

The deferred tax assets of $223,400 and $162,600 at December 31, 2020 and 2019, 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 $169,100 for federal and $54,300 for state are available to reduce future taxable income.

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 $223,400 as of December 31, 2020, and $162,600 as of December 31, 2019, has been recorded for the entire amount of the net deferred tax asset. The valuation allowance increased by $60,800 in 2020 and $5,800 in 2019.

17. CONDITIONAL PROMISES TO GIVE

At December 31, 2020 and 2019, ADC has government grants with $567,128 and $426,037 in cumulative remaining commitments, that are conditional upon incurring eligible expenditures or performing certain services in accordance with the corresponding grant agreements. Conditional contributions are not recognized in the financial statements until the conditions have been met.

18. COVID-19

A nationwide public health emergency is developing in 2020. The State of Minnesota has enacted measures to combat the global pandemic resulting from a novel strain of coronavirus known as COVID-19. Measures have included regulatory restrictions on citizen and business activities as well as recommendations for further voluntary curtailment of activities. There has been no immediate impact on ADC’s operations. The future potential impact of these issues is unknown and therefore no estimate can be made at this time. ADC applied for and received $90,300 in Paycheck Protection Program funding from a program developed by the Federal government in response to COVID-19. The PPP loan was forgiven in December 2020.

19. SUBSEQUENT EVENTS

On January 29, 2021, ADC received a revolving loan from the Community Benefit Financial Company, LLC (a wholly owned subsidiary of Otto Bremer Trust) of $750,000 at 1% interest. The loan matures on January 29, 2022. Advances under the agreement are at the Lender’s discretion.

On March 5, 2021, ADC received a loan from Religious Communities Impact Fund, Inc of $200,000 to be used to provide business loans to African immigrant and African American entrepreneurs throughout Minnesota. Interest is 2% and the loan is due March 1, 2024.

On April 1, 2021, ADC CRE received a loan from Midwest Minnesota Community Development Corporations (MMCDC) of $150,000 with interest at 4.25% due April 1, 2031. Proceeds of the loan will pay for ADC Headquarters Building roof replacement and other building repairs.

On May 3, 2021, ADC received a loan of $150,000 from the Mortenson Family Foundation at an interest rate of 1%. The loan matures on May 3, 2027.

On March 31, 2021, the board designated $500,000 of net assets without donor restrictions for funding of client loans.

Management has evaluated subsequent events through August 8, 2021, the date on which the financial statements were available for issue.