# AFRICAN DEVELOPMENT CENTER

## CONSOLIDATED
## FINANCIAL STATEMENTS

## FOR THE YEAR ENDED
## DECEMBER 31, 2019

# AFRICAN DEVELOPMENT CENTER

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

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## 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, 2019, 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)

***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, 2019, 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.

***Adoption of New Accounting Standards***
As discussed in Note 2 to the financial statements, African Development Center and affiliates has adopted the Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* and ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to those matters.

***Other Matters***
*Report on Summarized Comparative Information*
We have previously audited African Development Center's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 June 14, 2020, 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.

June 14, 2020

## AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019
(With Comparative Totals for 2018)

| | 2019 | 2018 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 556,547 | $ 418,462 |
| Certificates of deposit | - | 58,571 |
| Accounts receivable, net | 9,894 | 52,714 |
| Current portion of contributions and grants receivable | 212,944 | 880,000 |
| Current portion of loans receivable, net of allowance | 793,308 | 668,141 |
| Prepaid expenses | 3,749 | 1,525 |
| Total current assets | 1,576,442 | 2,079,413 |
| Cash - restricted for loans | 1,721,986 | 1,646,397 |
| Contributions and grants receivable, less current portion | 75,000 | 20,000 |
| Loans receivable, less current portion, net of allowance | 2,467,631 | 1,906,828 |
| Land, buildings and equipment, net | 1,489,784 | 1,613,338 |
| Total assets | $ 7,330,843 | $ 7,265,976 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 112,970 | $ 107,591 |
| Funds held for loans | 74,212 | 81,672 |
| Accrued interest expense | 35,299 | 9,944 |
| Tenant security deposits | 6,543 | 4,868 |
| Line of credit | 35,500 | 35,500 |
| Current portion of loan participations | 183,903 | 164,339 |
| Current portion of due to State of Minnesota | 114,996 | 91,246 |
| Current portion of long-term debt | 361,107 | 251,567 |
| Total current liabilities | 924,530 | 746,727 |
| Loan participations, less current portion | 189,220 | 282,185 |
| Due to State of Minnesota, less current portion | 224,561 | 312,830 |
| Long-term debt, less current portion | 4,123,598 | 4,257,626 |
| Total liabilities | 5,461,909 | 5,599,368 |
| Net assets | | |
| Without donor restrictions: | | |
| Undesignated | 1,122,066 | 1,185,480 |
| Undesignated - loan loss reserve | 181,868 | 156,758 |
| Total without donor restrictions | 1,303,934 | 1,342,238 |
| With donor restrictions | 565,000 | 324,370 |
| Total net assets | 1,868,934 | 1,666,608 |
| Total liabilities and net assets | $ 7,330,843 | $ 7,265,976 |

See accompanying notes to consolidated financial statements.

## AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

| | 2019 | | | |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | 2018 |
| Support and revenues: | | | | |
| Contributions | $ 146,543 | $ 450,000 | $ 596,543 | $151,862 |
| Government grants - technical assistance | 250,533 | - | 250,533 | 188,978 |
| Government grants - other | 109,225 | - | 109,225 | 247,850 |
| Net assets released from time and usage restrictions | 360,000 | (360,000) | - | - |
| Program service fees | 40,582 | - | 40,582 | 27,390 |
| In-kind contributions | 76,200 | - | 76,200 | 17,251 |
| Restaurant sales, net of discounts | - | - | - | 285,534 |
| Rental revenue | 74,426 | - | 74,426 | 97,151 |
| Interest income - loans | 186,107 | - | 186,107 | 126,711 |
| Interest income - deposit accounts | 4,258 | - | 4,258 | 1,414 |
| Awards event, net of direct donor benefits of $11,323 | - | - | - | 5,814 |
| Other income | 3,107 | - | 3,107 | 3,528 |
| Total support and revenues | 1,250,981 | 90,000 | 1,340,981 | 1,153,483 |
| Expenses: | | | | |
| Program services: | | | | |
| Empowerment and success | 890,097 | - | 890,097 | 846,779 |
| Social ventures | 280,020 | - | 280,020 | 556,930 |
| Total program services | 1,170,117 | - | 1,170,117 | 1,403,709 |
| Management and general | 130,049 | - | 130,049 | 107,256 |
| Fundraising | 38,489 | - | 38,489 | 36,997 |
| Total expenses | 1,338,655 | - | 1,338,655 | 1,547,962 |
| Change in net assets - operating | (87,674) | 90,000 | 2,326 | (394,479) |
| Government grants / contributions - lending | 25,000 | 175,000 | 200,000 | 600,000 |
| Net assets released from usage restrictions - loan fund | 24,370 | (24,370) | - | - |
| Total change in net assets | (38,304) | 240,630 | 202,326 | 205,521 |
| Net assets - beginning of year | 1,342,238 | 324,370 | 1,666,608 | 1,461,087 |
| Net assets - end of year | $ 1,303,934 | $ 565,000 | $ 1,868,934 | $ 1,666,608 |

See accompanying notes to consolidated financial statements.

**AFRICAN DEVELOPMENT CENTER**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Empowerment and success | Social Ventures | Total Program Services | Management and General | Fundraising | Total | 2018 |
| Salaries | $ 333,282 | $ 32,881 | $ 366,163 | $ 37,595 | $ 25,961 | $ 429,719 | $ 521,167 |
| Payroll taxes | 24,834 | 498 | 25,332 | 2,655 | 1,966 | 29,953 | 50,053 |
| Employee benefits | 32,874 | - | 32,874 | 4,125 | 182 | 37,181 | 32,535 |
| Total salaries and related | 390,990 | 33,379 | 424,369 | 44,375 | 28,109 | 496,853 | 603,755 |
| Consultants and contractors | 24,722 | 117 | 24,839 | 23,134 | - | 47,973 | 117,767 |
| Professional fees | - | 5,794 | 5,794 | 2,775 | 174 | 8,743 | 12,173 |
| Legal | 3,705 | 73,894 | 77,599 | 2,077 | - | 79,676 | 24,652 |
| Accounting | 16,411 | - | 16,411 | 23,899 | - | 40,310 | 38,292 |
| Occupancy | 6,603 | - | 6,603 | - | - | 6,603 | 9,057 |
| Supplies and office expenses | 19,810 | 8,802 | 28,612 | 2,089 | 1,624 | 32,325 | 42,245 |
| Telecommunications | 8,059 | - | 8,059 | 864 | 672 | 9,595 | 11,882 |
| Information technology | 1,658 | - | 1,658 | 178 | 138 | 1,974 | 14,466 |
| Equipment expenses | 5,471 | - | 5,471 | 2,147 | - | 7,618 | 12,349 |
| Travel and entertainment | 18,522 | 1,320 | 19,842 | 10,699 | - | 30,541 | 24,239 |
| Dues and subscriptions | 3,926 | - | 3,926 | 1,911 | - | 5,837 | 10,419 |
| Marketing and promotions | 681 | - | 681 | 121 | - | 802 | 3,079 |
| Meetings and training | 9,591 | - | 9,591 | 1,699 | - | 11,290 | 7,533 |
| Grants and donations | 147 | - | 147 | 643 | - | 790 | 1,158 |
| Insurance | 10,229 | 4,127 | 14,356 | 1,085 | 822 | 16,263 | 19,305 |
| Loan and loan-related expenses | 27,347 | - | 27,347 | - | - | 27,347 | 21,573 |
| Provision for loan losses | 152,382 | - | 152,382 | - | - | 152,382 | 115,410 |
| Interest | 98,963 | 15,278 | 114,241 | 2,213 | 1,375 | 117,829 | 77,674 |
| Licensing and bank fees | - | 631 | 631 | - | - | 631 | 14,716 |
| Building operations | 22,630 | 26,557 | 49,187 | 2,323 | 1,604 | 53,114 | 55,136 |
| Cost of sales - restaurant | - | - | - | - | - | - | 118,242 |
| Utilities | 13,045 | 16,427 | 29,472 | 1,339 | 925 | 31,736 | 53,804 |
| Property taxes | 5,854 | 6,869 | 12,723 | 601 | 415 | 13,739 | 10,833 |
| Depreciation | 47,810 | 82,753 | 130,563 | 5,701 | 2,631 | 138,895 | 136,624 |
| Miscellaneous | 1,541 | 4,072 | 5,613 | 176 | - | 5,789 | 2,902 |
| Total expenses | 890,097 | 280,020 | 1,170,117 | 130,049 | 38,489 | 1,338,655 | 1,559,285 |
| Less: Direct donor benefits of awards event | - | - | - | - | - | - | (11,323) |
| Net expenses | $ 890,097 | $ 280,020 | $ 1,170,117 | $ 130,049 | $ 38,489 | $ 1,338,655 | $ 1,547,962 |

See accompanying notes to consolidated financial statements.

## AFRICAN DEVELOPMENT CENTER

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 202,326 | $ 205,521 |
| Adjustments to reconcile the change in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 138,895 | 136,624 |
| Provision for loan losses | 152,382 | 115,410 |
| Government grants / contributions for lending | (200,000) | (600,000) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 42,820 | 11,297 |
| Contributions and grants receivable | 812,056 | 64,400 |
| Prepaid expenses | (2,224) | (325) |
| Accounts payable and other accrued expenses | 5,379 | 46,722 |
| Accrued interest | 25,355 | (8,430) |
| Tenant security deposits | 1,675 | (500) |
| Net cash from operating activities | 1,178,664 | (29,281) |
| Cash flows from investing activities: | | |
| Loans issued | (1,769,396) | (1,238,800) |
| Collections on loans | 818,196 | 537,091 |
| Purchase of building improvements and equipment | (15,341) | (18,618) |
| Redemption of certificates of deposit | 58,571 | 108,174 |
| Net cash from investing activities | (907,970) | (612,153) |
| Cash flows from financing activities: | | |
| Funds received from participatory lenders | 225,000 | 281,000 |
| Funds paid to participatory lenders | (257,532) | (123,803) |
| Proceeds of long-term debt | - | 1,570,060 |
| Payments of long-term debt | (24,488) | (265,264) |
| Advances on line of credit | - | 35,500 |
| Net cash from financing activities | (57,020) | 1,497,493 |
| Net increase in cash, cash equivalents, and restricted deposits | 213,674 | 856,059 |
| Cash, cash equivalents, and restricted deposits - beginning of year restated | 2,064,859 | 1,208,800 |
| Cash, cash equivalents, and restricted deposits - end of year | $ 2,278,533 | $ 2,064,859 |
| Reconciliation to the consolidated statements of financial position | | |
| Cash | 556,547 | 418,462 |
| Cash - restricted for loans | 1,721,986 | 1,646,397 |
| | $ 2,278,533 | $ 2,064,859 |
| Supplemental cash flow information: | | |
| Cash paid for interest expense | $ 92,474 | $ 77,358 |
| Participants' share of loan losses | $ 34,858 | $ 15,246 |

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 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) had temporarily discontinued operations and management terminated this subsidiary in 2019.

(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 had no activity in 2018, and was terminated in 2019.

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.

(Continued)

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

**Cash Equivalents** - For purposes of the statement of cash flows, cash restricted for loans and certificates of deposit are considered cash equivalents.

**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, 2019 and 2018.

**Certificates of Deposit** - ADC's certificate of deposit had a maturity date of 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.

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

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

Funds held for loans represent 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 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.

**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 $76,200 in 2019 and $17,251 in 2018.

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

**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.

(Continued)

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

**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.

**Restaurant 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 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. 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, 2018, 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, costs 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.

**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.

(Continued)

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 2019 or 2018. Management believes that ADC and its subsidiaries have no uncertain income tax positions.

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 & Coffee LLC is a disregarded entity included in the income tax return of ADC CRE.

**Accounting Standards Adopted** - In 2019, the ADC adopted Accounting Standards Update (ASU) 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash* using the full retrospective approach. This ASU was issued to address diversity in reporting restricted cash on the statement of cash flows, largely due to the lack of guidance. After the adoption of ASU 2016-18, restricted cash and cash equivalents must be included with the beginning and ending cash and cash equivalents shown on the statement of cash flows. Before the change, restricted cash and cash equivalents were excluded. The change increased 2018 beginning of year cash, cash equivalents, and restricted cash reported on the statement of cash flows by $885,604.

In 2019, ADC adopted ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* Accordingly, the accounting change has been applied prospectively to the year ended December 31, 2019, and years going forward and had no impact on net assets previously reported. The presentation and disclosures of contributions have been enhanced in accordance with the standard.

Also in 2019, the Organization adopted ASU 2014-09 *Revenue from Contracts with Customers*. This ASU did not have an effect on ADC's financial statements.

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. To help manage unanticipated liquidity needs, ADC has a committed line of credit of $150,000 (Note 9) which it could draw upon.

3. **LIQUIDITY AND AVAILABILITY (Continued)**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use and excluding lending activity, within one year of December 31, comprise the following:

| | 2019 | 2018 |
|---|---|---|
| Cash | $ 556,547 | $ 418,462 |
| Certificate of deposit | - | 58,571 |
| Accounts receivable, net | 9,894 | 52,714 |
| Contributions and grants receivable | 212,944 | 880,000 |
| Less unavailable for general expenditures within one year: | | |
| Contributions and grants receivable for lending and reserves | - | (600,000) |
| | $ 779,385 | $ 809,747 |

4. **CONTRIBUTIONS AND GRANTS RECEIVABLE**

Contributions and grants receivable of $212,944 are due to be collected in 2020 and $75,000 in 2021.

5. **LOANS RECEIVABLE**

Loans receivable consist of the following:

| | 2019 | 2018 | Number of loans at December 31, 2019 |
|---|---|---|---|
| Small business loans | $ 3,703,002 | $ 2,892,628 | 166 |
| Allowance for loan losses | (442,063) | (317,659) | |
| | 3,260,939 | 2,574,969 | |
| Less current portion | (793,308) | (668,141) | |
| | $ 2,467,631 | $ 1,906,828 | |

(Continued)

5. **LOANS RECEIVABLE (Continued)**

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, 2019 and 2018, total loans outstanding under this program are $925,352 and $784,531 of which $727,900 and $617,189 is insured by the SBA.

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Current | $ 2,633,516 | 71% | $ 2,198,772 | 76% |
| 1 – 30 days | 587,534 | 16% | 458,882 | 16% |
| 31 – 60 days | 252,430 | 7% | 166,675 | 6% |
| 61 – 90 days | - | 0% | - | 0% |
| Over 90 days | 229,522 | 6% | 68,299 | 2% |
| | $ 3,703,002 | 100% | $ 2,892,628 | 100% |

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

| | 2019 | 2018 |
|---|---|---|
| Beginning balance | $ 317,659 | $ 213,768 |
| Provision for loan losses | 152,382 | 115,410 |
| Loan recoveries | - | 10,000 |
| Loans written off | (27,978) | (21,519) |
| Ending balance | $ 442,063 | $ 317,659 |

(Continued)

## 5. LOANS RECEIVABLE (Continued)

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, 2019:

- 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 there are no loans considered impaired.

## 6. 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:

| | 2019 | 2018 |
|---|---|---|
| CPED loan participations | $ 135,501 | $ 130,580 |
| MCCD loan participations | 50,401 | 50,697 |
| NDC loan participations | 26,318 | 31,858 |
| MEDA loan participation | 160,903 | 233,389 |
| | 373,123 | 446,524 |
| Less current portion | (183,903) | (164,339) |
| | $ 189,220 | $ 282,185 |

## 7. 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. No funds remain for lending under the second contract.

Due to the State of Minnesota consists of:

| | 2019 | 2018 |
|---|---|---|
| Current portion | $ 114,996 | $ 91,246 |
| Long-term portion | 224,561 | 312,830 |
| Total Due to State of Minnesota | $ 339,557 | $ 404,076 |

(Continued)

## 8. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following:

| | 2019 | 2018 | Estimated useful lives (in years) |
|---|---|---|---|
| **ADC:** | | | |
| Computers and equipment | $ 289,590 | $ 274,249 | 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 | 213,486 | 213,486 | 5 - 7 |
| | 2,676,188 | 2,660,847 | |
| Less accumulated depreciation | (1,186,404) | (1,047,509) | |
| | $ 1,489,784 | $ 1,613,338 | |

## 9. LINES OF CREDIT

ADC has a $150,000 line of credit from Western Bank for general operating purposes. The line of credit matures September 4, 2020. The interest rate is 1% over the Wall Street Journal Prime Rate, however, the rate will never be less than 5%. At December 31, 2019 and 2018, 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 line of credit matured June 7, 2019. The interest rate is 2.5% over the Wall Street Journal Prime Rate, however, the rate will never be less than 6.75%. (8% at December 31, 2019). Advances are secured by assets, equipment and a food truck. At December 31, 2019, outstanding advances are $35,500. In February 2020 these advances were converted into a note payable. The interest rate of the note payable is 2.0% over the Wall Street Journal Prime Rate.

(Continued)

## 10. LONG-TERM DEBT

Long-term debt consists of the following:

| | 2019 | 2018 |
|---|---|---|
| **ADC:** | | |
| Wells Fargo EQ2 loans | $ 250,000 | $ 250,000 |
| BMO Harris EQ2 loan | 300,000 | 425,000 |
| SBA microloan | 105,499 | 167,926 |
| SBA microloan #2 | 211,330 | 238,670 |
| SBA microloan #3 | 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 |
| Subtotal | 3,489,059 | 3,456,138 |
| **ADC CRE:** | | |
| MMCDC loan | 768,166 | 788,416 |
| Park Midway Bank | 4,072 | 19,120 |
| City of Minneapolis | 164,817 | 183,416 |
| Bremer Bank | 58,591 | 62,103 |
| | 4,484,705 | 4,509,193 |
| Less current portion | (361,107) | (251,567) |
| | $ 4,123,598 | $ 4,257,626 |

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

**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, 2019). Interest is payable quarterly.

The outstanding principal balance of the loan and accrued interest was initially due June 21, 2016, and extended to June 21, 2018. Quarterly principal and interest payments of $31,250 began in 2016. The loan was repaid in 2018.

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 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 payments of $31,250 are due.

**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%.

10. **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, 2019, 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.

**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.

10. **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, 2019, 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%. As of December 31, 2019 ADC has drawn $250,000.

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, 2019, the interest rate was .75%.

(Continued)

## 10. 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. During 2017, $9,816 was forgiven.

**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)

10. **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.

**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 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, 2019). 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.

## 10. LONG-TERM DEBT (Continued)

Maturities of long-term debt are as follows:

| | |
|---|---|
| 2020 | $ 361,107 |
| 2021 | 1,141,023 |
| 2022 | 802,955 |
| 2023 | 277,583 |
| 2024 | 174,967 |
| Thereafter | 1,727,070 |
| | $ 4,484,705 |

## 11. NET ASSETS

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

| | 2019 | 2018 |
|---|---|---|
| African Development Center | $ 68,916 | $ 140,974 |
| Subsidiaries | (156,590) | (212,810) |
| | $ (87,674) | $ (71,836) |

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.

## 11. NET ASSETS (Continued)

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

| | 2019 | 2018 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Program services in greater Minnesota | $ - | $ 75,000 |
| Business development – African immigrants | 20,000 | 75,000 |
| Homeownership capacity building | 120,000 | - |
| Lending | 175,000 | 24,370 |
| Loan loss reserve | 100,000 | 100,000 |
| Subject to the passage of time: | | |
| General operations | 150,000 | 50,000 |
| | $ 565,000 | $ 324,370 |

## 12. COMMERCIAL RENT REVENUE

ADC utilizes approximately 49% of the ADC Headquarters Building for its programs. The remaining space is available for lease for office (43%) and retail (8%) uses. There are eleven office suites and one retail suite. Lease terms for the office suites range from month-to-month to five years. Jambo! occupied the retail space.

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

| | |
|---|---|
| 2020 | $ 16,200 |
| 2021 | 15,900 |
| 2022 | 18,750 |
| 2023 | 20,550 |
| 2024 | 12,600 |

(Continued)

## 13. CONCENTRATIONS

ADC maintains its cash at two financial institutions. Balances may, at times, exceed federally insured limits. ADC has not experienced any losses as a result of these deposits. As of December 31, 2019 and 2018, deposits exceeded the federally insured limit by $1,758,487 and $1,613,713.

ADC received 34% ($500,000) of its support and revenue from one foundation in 2019.

ADC received 40% ($700,000) of its support and revenue from the Department of Treasury in 2018.

## 14. 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 | $ 47,700 | $ 65,500 |
| State minimum fees | (610) | (600) |
| Deferred tax asset valuation allowance | (5,800) | (68,000) |
| Prior year accrual differences and other | (41,290) | 3,100 |
| Income tax (expense) benefit | $ - | $ - |

The deferred tax assets of $162,600 and $156,800 at December 31, 2019 and 2018, 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 $338,186 for federal and $519,826 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 $162,600 as of December 31, 2019, and $156,800 as of December 31, 2018, has been recorded for the entire amount of the net deferred tax asset. The valuation allowance increased by $5,800 in 2019 and $68,000 in 2018.

(Continued)

## 15. 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. No payments were made in 2018 or 2019.

Due to the restaurant's closure, management is in negotiations to terminate this agreement.

## 16. CONDITIONAL PROMISES TO GIVE

At December 31, 2019, ADC has government grants with $462,037 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.

## 17. SUBSEQUENT EVENTS

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.

Management has evaluated subsequent events through June 14, 2020, the date on which the financial statements were available for issue.