

NONPROFITS ASSISTANCE FUND
(Formerly Community Loan Technologies)

Financial Statements and Supplementary Information

March 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

NONPROFITS ASSISTANCE FUND
(Formerly Community Loan Technologies)

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Independent Auditors' Report

Board of Directors
Nonprofits Assistance Fund:

We have audited the accompanying statements of financial position of Nonprofits Assistance Fund (formerly Community Loan Technologies) as of March 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Nonprofits Assistance Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Nonprofits Assistance Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nonprofits Assistance Fund at March 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit for the year ended March 31, 2005, was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 9 and 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole as of and for the year ended March 31, 2005.

May 27, 2005

NONPROFITS ASSISTANCE FUND
(Formerly Community Loan Technologies)

Statements of Financial Position

March 31, 2005 and 2004

Assets	2005			2004		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Cash and cash equivalents	\$ 5,760,849	517,111	6,277,960	6,879,212	165,201	7,044,413
Grants receivable	2,500	5,000	7,500	—	—	—
Accounts receivable	10,787	—	10,787	6,857	—	6,857
Loans receivable, net of allowance of \$636,783 and \$590,921, respectively	7,135,999	—	7,135,999	6,739,771	—	6,739,771
Loan interest receivable	58,028	—	58,028	58,350	—	58,350
Due from net assets on notes with below-market interest rates	—	183,659	183,659	—	334,797	334,797
Prepays	2,877	—	2,877	3,137	—	3,137
Equipment, net	23,167	—	23,167	39,130	—	39,130
Total assets	\$ 12,994,207	705,770	13,699,977	13,726,457	499,998	14,226,455
Liabilities and Net Assets						
Accounts payable	\$ 62,541	—	62,541	108,605	—	108,605
Interest payable	157,501	—	157,501	188,853	—	188,853
Deferred revenue	1,201	—	1,201	2,359	—	2,359
Notes payable, net (note 2)	9,183,687	—	9,183,687	9,549,420	—	9,549,420
Due to net assets on notes with below-market interest rates	183,659	—	183,659	334,797	—	334,797
Subordinate debt to The Minneapolis Foundation (note 3)	2,187,628	—	2,187,628	2,325,784	—	2,325,784
Total liabilities	11,776,217	—	11,776,217	12,509,818	—	12,509,818
Net assets (note 4)	1,217,990	705,770	1,923,760	1,216,639	499,998	1,716,637
Total liabilities and net assets	\$ 12,994,207	705,770	13,699,977	13,726,457	499,998	14,226,455

See accompanying notes to financial statements.

NONPROFITS ASSISTANCE FUND
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Statements of Activities

Years ended March 31, 2005 and 2004

	2005			2004		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenues:						
Gifts	\$ 48,230	490,500	538,730	566,795	75,000	641,795
Loan interest income	511,637	—	511,637	521,848	—	521,848
Investment income	123,919	—	123,919	86,400	—	86,400
Contribution revenue	177,538	—	177,538	344,953	—	344,953
Other revenue	44,399	—	44,399	35,444	—	35,444
Net assets released from restrictions	284,728	(284,728)	—	365,845	(365,845)	—
Total revenues	<u>1,190,451</u>	<u>205,772</u>	<u>1,396,223</u>	<u>1,921,285</u>	<u>(290,845)</u>	<u>1,630,440</u>
Expenses:						
Program services:						
Program expenses	622,725	—	622,725	1,052,285	—	1,052,285
Grants	—	—	—	338,750	—	338,750
Interest expense	463,386	—	463,386	525,277	—	525,277
Management and general expenses	83,053	—	83,053	82,830	—	82,830
Fundraising	19,936	—	19,936	21,217	—	21,217
Total expenses	<u>1,189,100</u>	<u>—</u>	<u>1,189,100</u>	<u>2,020,359</u>	<u>—</u>	<u>2,020,359</u>
Change in net assets	1,351	205,772	207,123	(99,074)	(290,845)	(389,919)
Net assets at beginning of year	<u>1,216,639</u>	<u>499,998</u>	<u>1,716,637</u>	<u>1,315,713</u>	<u>790,843</u>	<u>2,106,556</u>
Net assets at the end of year	<u>\$ 1,217,990</u>	<u>705,770</u>	<u>1,923,760</u>	<u>1,216,639</u>	<u>499,998</u>	<u>1,716,637</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 207,123	(389,919)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	18,677	17,906
Amortization of discount on notes payable with below-market interest rates	151,138	215,605
Forgiveness of debt	(38,156)	(198,665)
Changes in assets and liabilities:		
Grants receivable	(7,500)	50,000
Accounts receivable	(3,930)	(640)
Loan interest receivable	322	4,453
Prepays	260	(260)
Accounts payable	(46,064)	(14,178)
Interest payable	(31,352)	(122,854)
Deferred revenue	(1,158)	(12,165)
Refundable advance	—	(440,900)
Net cash provided by (used in) operating activities	<u>249,360</u>	<u>(891,617)</u>
Cash flows from investing activities:		
Increase in loans receivable	(396,228)	(1,370,379)
Purchase of equipment	(2,714)	—
Net cash used in investing activities	<u>(398,942)</u>	<u>(1,370,379)</u>
Cash flows from financing activities:		
Proceeds from the issuance of notes payable	1,281,500	3,332,500
Principal payments on notes payable	(1,798,371)	(1,013,051)
Decrease in subordinate debt to The Minneapolis Foundation	(100,000)	(298,665)
Net cash (used in) provided by financing activities	<u>(616,871)</u>	<u>2,020,784</u>
Net decrease in cash and cash equivalents	(766,453)	(241,212)
Cash and cash equivalents at beginning of year	<u>7,044,413</u>	<u>7,285,625</u>
Cash and cash equivalents at end of year	<u>\$ 6,277,960</u>	<u>7,044,413</u>
Supplemental cash flow information:		
Forgiveness of debt	\$ 38,156	198,665
Interest paid during the year	175,999	247,812

See accompanying notes to financial statements.

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Notes to Financial Statements

March 31, 2005 and 2004

(1) Summary of Significant Accounting Policies

(a) Organization

Nonprofits Assistance Fund (NAF) (formerly Community Loan Technologies) was created as a supporting organization of The Minneapolis Foundation (TMF) on October 1, 1998. In connection therewith, TMF transferred certain net assets to NAF. NAF issued noninterest-bearing subordinated debt to TMF for a portion of the net assets transferred to it. NAF is located in Minneapolis, Minnesota and is a not-for-profit organization under Internal Revenue Code Section 501(c)(3). NAF consists of several component loan and technical assistance programs that are designed to increase the financial stability and economic vitality of not-for-profit organizations in Minnesota and throughout the United States.

(b) Basis of Presentation

NAF maintains its accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For financial reporting purposes, resources are classified into net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of NAF and changes therein are classified and reported as follows:

- Unrestricted net assets represent that portion of expendable funds that are available for support of the operations of NAF, and
- Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are not available for use until a specific time.

(c) Basis of Accounting

The accompanying financial statements of NAF are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(d) Cash and Cash Equivalents

NAF classifies all highly liquid debt securities with a maturity of three months or less at the time of purchase to be cash equivalents.

(e) Grants Receivable

Grants, including unconditional promises to give, are recognized as revenue in the period that the grant is received or that the promise is made. The grants are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are

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March 31, 2005 and 2004

reported as income of unrestricted net assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

(f) *Loans Receivable*

The loans receivable consist of notes with interest rates ranging from 4.5% to 11.0% with maturities through 2012. The board of directors has adopted a loan loss reserve policy and a loan loss reserve is maintained which is considered adequate to absorb losses inherent in the loan portfolio.

(g) *Notes Payable with Below-market Interest Rates*

Certain of NAF's notes payable have below-market interest rates. The notes payable mature at various dates through 2013. NAF has recorded the difference between the face value of the notes payable and the fair value of the notes based on a market interest rate of 5% as a discount to the carrying amount of the notes payable and as temporarily restricted contribution revenue. Because notes payable are included in the determination of unrestricted net assets and the economic benefit of the below-market interest rate accrued to temporarily restricted net assets, NAF established the due to/from net assets on notes with below-market interest rates captions in its statement of financial position. Over the term of the notes, the discount is amortized and included as a component of interest expense. Each year, the portion of temporarily restricted net assets pertaining to the discount amortization is included in net assets released from restrictions.

(h) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.

(i) *Federal Income Taxes*

NAF has received a determination letter from the Internal Revenue Service indicating it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is subject to federal income tax only on net unrelated business income.

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Notes to Financial Statements

March 31, 2005 and 2004

(2) Notes Payable

The notes payable consist of loans with interest rates up to 5.0%, maturing through 2013. Principal payments on the notes payable as of March 31, 2005 are as follows:

Year ending March 31:		
2006	\$	1,244,151
2007		504,664
2008		1,364,000
2009		2,220,872
2010		500,000
Thereafter		3,350,000
	\$	<u>9,183,687</u>

(3) Subordinate Debt to The Minneapolis Foundation

As of March 31, 2005, NAF had subordinated debt to TMF of \$2,187,628 related to the transfer of assets discussed in note 1. The subordinated debt is noninterest-bearing, renewable annually. Pursuant to the loan documents, the subordinated debt to TMF will be reduced by the principal amount of loans receivable that cannot be recovered by NAF. Contribution revenue and interest expense have been recorded in connection with the interest-free subordinate debt using an imputed interest rate of 5%.

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at March 31:

	2005	2004
Restricted for specific purposes:		
Minnesota Nonprofits Assistance Fund	\$ 380,400	31,664
Minnesota Primary Care Fund	37,500	—
Working Capital Program Fund	104,211	133,537
Restricted for use due to time:		
Working Capital Loan Fund	183,659	334,797
	<u>\$ 705,770</u>	<u>499,998</u>

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(5) Lease Obligation

On July 20, 2000, NAF entered into a 60-month noncancelable operating lease agreement for office space. Rent expense was \$25,417 for the year ended March 31, 2005. Future minimum lease payments under all noncancelable operating leases as of March 31, 2005 are as follows:

2006	\$	24,284
2007		1,133
Total minimum lease payments	\$	<u>25,417</u>

SUPPLEMENTARY INFORMATION

NONPROFITS ASSISTANCE FUND
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Schedule of Financial Position by Program

March 31, 2005

	<u>MNAF</u>	<u>E Fund</u>	<u>MN Primary Care</u>	<u>McKnight</u>	<u>Corporate and Fundraising</u>	<u>WC Loan Fund</u>	<u>WC Program</u>	<u>Total</u>
Assets:								
Cash and cash equivalents	\$ 2,463,061	172,739	271,419	300,000	96,014	2,867,228	107,499	6,277,960
Grants receivable	—	—	7,500	—	—	—	—	7,500
Accounts receivable	7,825	—	—	—	—	2,962	—	10,787
Loans receivable, net of loan allowance	5,690,825	233,664	872,181	—	—	339,329	—	7,135,999
Loan interest receivable	44,477	2,637	4,924	—	—	5,990	—	58,028
Due from net assets on notes with below-market interest rates	—	—	—	—	—	183,659	—	183,659
Prepays	—	—	—	—	2,877	—	—	2,877
Equipment, net	—	—	—	—	23,167	—	—	23,167
Total assets	\$ 8,206,188	409,040	1,156,024	300,000	122,058	3,399,168	107,499	13,699,977
Liabilities and net assets:								
Liabilities:								
Accounts payable	\$ 40,985	1,803	7,266	—	7,238	2,032	3,217	62,541
Interest payable	38,075	—	113,345	—	—	6,081	—	157,501
Deferred revenue	1,201	—	—	—	—	—	—	1,201
Notes payable	5,564,000	98,815	1,000,000	300,000	—	2,220,872	—	9,183,687
Due to net assets on notes with below-market interest rates	—	—	—	—	—	183,659	—	183,659
Subordinate debt to TMF	1,921,448	266,180	—	—	—	—	—	2,187,628
Total liabilities	7,565,709	366,798	1,120,611	300,000	7,238	2,412,644	3,217	11,776,217
Net assets:								
Unrestricted net assets	260,079	42,242	(2,087)	—	114,820	802,865	71	1,217,990
Temporarily restricted net assets	380,400	—	37,500	—	—	183,659	104,211	705,770
Total net assets	640,479	42,242	35,413	—	114,820	986,524	104,282	1,923,760
Total liabilities and net assets	\$ 8,206,188	409,040	1,156,024	300,000	122,058	3,399,168	107,499	13,699,977

See accompanying independent auditors' report.

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Schedule of Program Information

Year ended March 31, 2005

	<u>MNAF</u>	<u>E Fund</u>	<u>MN Primary Care</u>	<u>McKnight</u>	<u>Corporate and Fundraising</u>	<u>WC Loan Fund</u>	<u>WC Program</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:									
Gifts	\$ 460,500	—	78,230	—	—	—	—	—	538,730
Loan interest revenue	429,714	21,038	31,005	—	—	29,880	—	—	511,637
Investment income	31,538	2,263	11,193	—	6,950	71,638	337	—	123,919
Contribution revenue	96,072	51,466	30,000	—	—	—	—	—	177,538
Other revenue	44,274	—	125	—	98,000	—	—	(98,000)	44,399
Total revenues	<u>1,062,098</u>	<u>74,767</u>	<u>150,553</u>	<u>—</u>	<u>104,950</u>	<u>101,518</u>	<u>337</u>	<u>(98,000)</u>	<u>1,396,223</u>
Expense:									
Program expenses	389,282	57,416	88,783	—	—	57,581	29,663	—	622,725
Interest expense	237,012	13,309	30,000	—	—	183,065	—	—	463,386
Management and general expenses	66,000	10,000	10,000	—	83,053	12,000	—	(98,000)	83,053
Fundraising	—	—	—	—	19,936	—	—	—	19,936
Total expenses	<u>692,294</u>	<u>80,725</u>	<u>128,783</u>	<u>—</u>	<u>102,989</u>	<u>252,646</u>	<u>29,663</u>	<u>(98,000)</u>	<u>1,189,100</u>
Change in unrestricted net assets	21,068	(5,958)	(15,730)	—	1,961	10	—	—	1,351
Change in temporarily restricted net assets	348,736	—	37,500	—	—	(151,138)	(29,326)	—	205,772
Change in net assets	369,804	(5,958)	21,770	—	1,961	(151,128)	(29,326)	—	207,123
Transfer – Unrestricted funds	(15,730)	—	15,730	—	—	—	—	—	—
	354,074	(5,958)	37,500	—	1,961	(151,128)	(29,326)	—	207,123
Net assets at beginning of year	286,405	48,200	(2,087)	—	112,859	1,137,652	133,608	—	1,716,637
Net assets at end of year	<u>\$ 640,479</u>	<u>42,242</u>	<u>35,413</u>	<u>—</u>	<u>114,820</u>	<u>986,524</u>	<u>104,282</u>	<u>—</u>	<u>1,923,760</u>

See accompanying independent auditors' report.