



NORTHSIDE ECONOMIC OPPORTUNITY NETWORK (NEON)

December 1, 2006

Jonathan Palmer, Director
Minneapolis Empowerment Zone
Crown Roller Mill
105 Fifth Ave. S. - Suite 200
Minneapolis, MN 55401

Dear Jonathan,

We are pleased to submit this request for funding from the Minneapolis Empowerment Zone for the Northside Economic Opportunity Network (NEON). We are requesting \$125,000 to be used in 2007 to strengthen our efforts to create neighborhood-based commerce, jobs, and services for the Northside EZ and adjacent neighborhoods.

As you know, a core issue within the Northside EZ has been a lack of investment for new business development. We are confident that NEON has the right partners at the table to produce a significant number of new and expanded businesses on the Northside – bringing jobs, services, and amenities that will promote the catalytic change that you, the EZ Board, and elected officials have outlined.

You'll find attached a narrative proposal, budget, and several other supporting documents. Please note that we are open to discussion regarding our current fiscal agent arrangement with NRRC and, of course, to other ideas or improvements you might suggest to our strategies.

We appreciate your review of this proposal and your ongoing support of our efforts.

On behalf of the collaborative,

Mike Temali, Executive Director
Neighborhood Development Center

Sherrie Pugh, Executive Director
Northside Residents Redevelopment Council

cc: Grover Jones, NEON staff
Luke Weisberg, NEON consultant
NEON partners

PROPOSAL TO
Minneapolis Empowerment Zone
FROM THE
NORTHSIDE ECONOMIC OPPORTUNITY NETWORK (NEON)

Neighborhood Development Center
Northside Residents Redevelopment Council
Pieces, Inc. dba Renaissance Business Center
Emerge / Pillsbury United Communities
Twin Cities Rise!
West Broadway Area Coalition
Local Initiatives Support Corporation
Minneapolis Consortium of Community Developers

November, 2006



SUMMARY

This is a request for \$125,000 from the Minneapolis Empowerment Zone to support the Northside Economic Opportunity Network (NEON) to deliver entrepreneur training, loan packaging and business technical assistance for the Northside of Minneapolis in 2007.

I. INTRODUCTION

Several Northside organizations in Minneapolis are working together to strengthen and expand an existing “entrepreneur development system” that serves Northside residents. This “system” involves collaborative relationships among several organizations to recruit and train neighborhood residents to become entrepreneurs, facilitate financing, business siting and other implementation support. This proposal seeks support for a portion of a three-year implementation plan by the Northside Economic Opportunity Network (NEON) that will create a significant number of new resident-owned and operated businesses, many of which will have a visible presence on West Broadway and other commercial areas on the Northside. Anchored by the Neighborhood Development Center (NDC) and Northside Residents Redevelopment Council (NRRC) as leaders, NEON brings the skill and commitment of several Northside organizations together to transform West Broadway and surrounding commercial areas of the north Minneapolis. Participating collaborators include: Neighborhood Development Center (NDC); Northside Residents Redevelopment Council (NRRC); Emerge / Pillsbury United Communities (PUC); Pieces, Inc. dba Renaissance Business Center; and West Broadway Area Coalition (WBAC), together with Local Initiatives Support Corporation (LISC) and the Minneapolis Consortium of Community Developers (MCCD). Complete descriptions of each appear in the Appendix.

Start-up funding for NEON was provided by NorthWay Community Trust. Currently, NEON has a commitment in the Mayor’s budget request for \$75,000 through the Minneapolis Employment and Training Program (METP). NEON also has requests pending with area foundations. An investment of \$125,000 from the Minneapolis Empowerment Zone in NEON will further the goals of the EZ, directly impacting economic development in the Zone through creation of new business, neighborhood-based commerce, and the provision of much-needed goods and services for EZ residents. The implementation of this proposal requires direct provision of education and other community-based services physically located within the EZ. It is anticipated that many of the direct beneficiaries of the business development spurred by NEON will be EZ residents.

II. NEEDS & CHALLENGES

The economic development needs of the North Minneapolis region are well-documented. Data from NorthWay Community Trust¹ affirms that North Minneapolis is measurably poor: one in four residents earn an income below the official federal poverty level and half of all Northside residents earn less than 200% of federal poverty level (a more accurate indicator of poverty). Much of this poverty is due to lack of employment and/or low wages earned by those employed. From 1980 to 2000, overall employment declined by about 5%. While Northside residents' source of income is proportionate to the rest of the city (about 80% of household income is from wages and salaries), there are a disproportionate number of Northside residents who rely on some type of public assistance. It is worth noting, however, that from 1980 to 1990, self-employment rose by 10%. While this is from a small base of self-employed residents, it suggests that an entrepreneurial strategy toward economic development holds promise as a catalyst for the region.

The Northside is remarkably underserved by quality, affordable retail and neighborhood services. Federal lending data² affirms that the Northside consistently ranks in the lowest categories of small business lending: less than 25 "small" and "very small" business loans in 2003 and less than \$1 million in capital lent to all small businesses in 2003. The need for investment is clear. Coupled with the interest in self-employment and the strong history of entrepreneurial development from the NEON partners, there is strong evidence that an expanded and strengthened entrepreneurial strategy can succeed.

The entrepreneur development system operated by NRRC and NDC (and other NEON partners) on the Northside has done so successfully for about a decade – having trained over 300 individuals and supported the creation of approximately 50 businesses that operate now. However, only 20% of those businesses have made a visible home on West Broadway or other commercial areas in the region. Many businesses that have been grown on the Northside through entrepreneur development efforts to date have been home-based (60%) and/or service (66%) businesses.³ While the impact of those businesses is measurable and real, it has not created the visible transformation desired for the Empowerment Zone in particular, and

¹ Data points are taken from "Data Highlights for the NorthWay Databook", an unpublished collection of data (drawn from 2000 census data) prepared for NorthWay Community Trust by Crossroads Resource Center and Alan Malkis Consulting, March 25, 2004.

² Federal Financial Institutions Examination Council, Community Reinvestment Act, 2003

³ These data are drawn from NDC-NRRC Micro Entrepreneur Training Program Summary (see Appendix)

North Minneapolis generally. The challenge is to expand the good work that has been done, help place new and expanding businesses in visible locations along West Broadway and other commercial venues; and, spur more private investment in the region.

III. REQUEST AND STRATEGY

The collaborators in this proposal wish to expand the existing Northside entrepreneur development system to better serve North Minneapolis residents with employment opportunities as well as retail goods and services. NEON expands and strengthens activity already underway by creating efficiencies and synergies among existing partners, honing the entrepreneur development “system”, and broadening the scope of efforts to date.

“Creating Programmatic Synergy”

Those words sound empty unless illustrated with a story... A client operating a barber shop/beauty salon on West Broadway wants to buy the building he’s in. With assistance from NRRC, he is directed to an appropriate loan program at CPED. When financial difficulties arise, and CPED staff indicate that the client might have difficulty qualifying for the loan program, NRRC staff are able to direct the client to representatives from Pieces, Inc., another NEON partner. Leaders from Pieces are now working with the client to find financial support in order to follow through on purchase of the building. Established partner relationships allow such connections to happen easily and to benefit more clients.

To support this activity, NEON partners request \$125,000 from the City of Minneapolis Empowerment Zone to pursue three strategies that together create stronger outcomes than have been achieved in the past including:

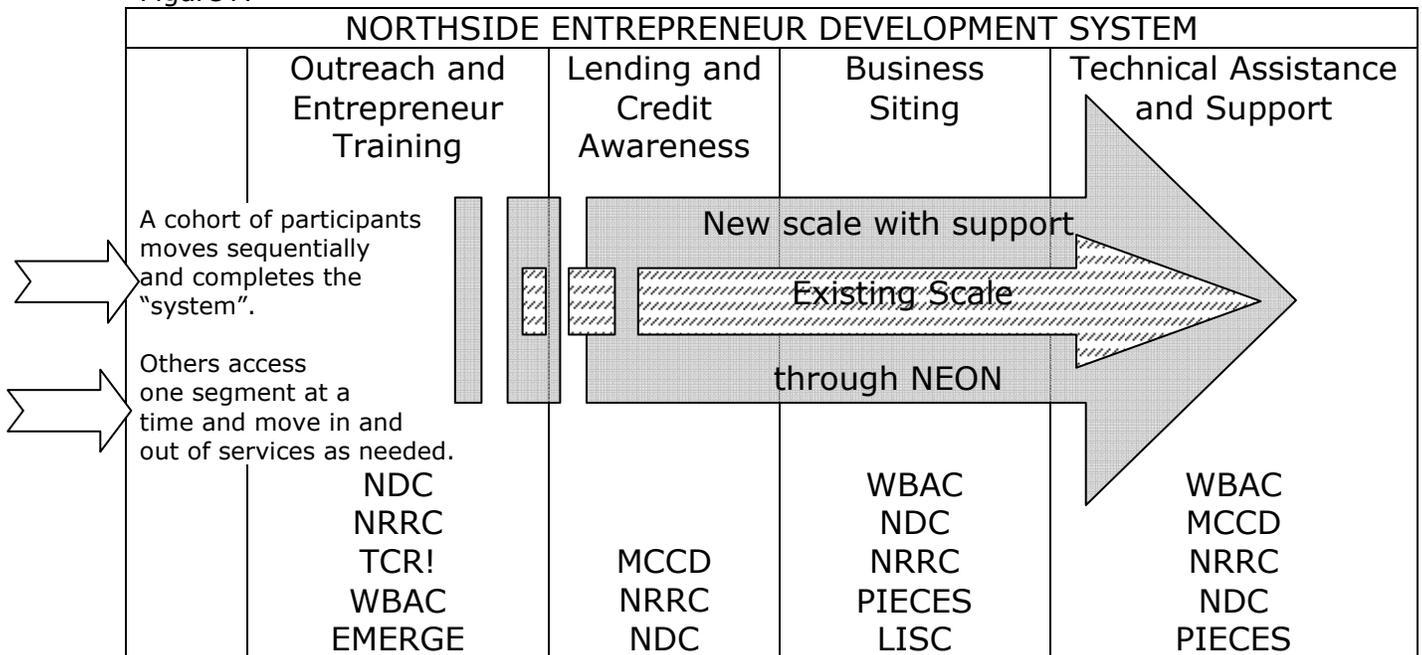
- Strengthening and expanding the existing “entrepreneur development system” so that more individuals are trained and more businesses developed;
- Focusing efforts to create a visible presence of new and expanded businesses along West Broadway in the Renaissance Business Center and other Northside commercial corridors; and,
- Building a strong network to support new and existing businesses, creating operational efficiencies and programmatic synergy that improves outcomes and extends the value of financial investments (see sidebar).

The entrepreneur development system is composed of four components that function on two parallel paths (see Figure A). One path serves a cohort of Northside residents sequentially, as new trainees and future business owners. The other path allows residents

and businesses to access services on an as-needed basis, without necessarily completing the full sequence of services.

An explicit part of this strategy is to strengthen connections between collaborating organizations so that residents move through the sequential path of entrepreneur training and business development as efficiently and seamlessly as possible. Further, the partners recognize that not all those recruited decide to pursue training, nor do all trainees succeed in starting businesses. Those residents need an alternate path that leads to employment and/or other income for them. NEON is creating connections among partners (specifically Emerge and Twin Cities Rise!) so that those who do not complete the functions sequentially find benefit and are moved toward a measurable positive outcome, rather than simply being left out of the entrepreneur training path.

Figure A



An additional strategic focus is on the visible placement of new businesses on West Broadway in the new Renaissance Business Center (1011 W. Broadway) and in other locations. As noted above, a majority of businesses developed to date have been successful, but invisible to the neighborhood. NEON believes that a visible presence of new businesses is necessary to create the neighborhood transformation that Mayor Rybak, Councilmembers Hofstede, Johson and Samuels and others believe is possible and necessary for the Northside. The visible transformation of a neighborhood – complete

with commercial development for needed goods and services – is precisely the outcome intended for the Empowerment Zone. The collaborators are confident that with EZ support, NEON can contribute significantly to that outcome.

Taken together, these strategies will build a network that is true to NEON's name: the Northside Economic Opportunity Network. NEON is about expanding and strengthening opportunity for economic success among new and emerging businesses and residents who are customers and stakeholders of those businesses. At its core are several functions associated with expanding the existing system (both by moving more people through and bringing in new partners) and better coordinating efforts across players involved in these efforts. However, there is more to the network. NEON partners envision that, over time, the network will include "alumni" businesses, local business associations, local business leaders, neighborhood organizations, and others who can take on a mentoring and support role for the 'next generation' of Northside business owners. This additional support is being pursued now in relationships among NEON collaborators and with special assistance from SCORE volunteers dedicated to serving the Northside.

Finally, there is a strong desire on the part of Northside stakeholders to help shape the future development of the region such that it benefits current and future residents and business owners. Neighborhood stakeholders recognize that while development and economic growth may have their own path/course and pace, it can also be shaped. To promote holistic and sustainable retail development, NEON will work to ensure that new business development responds to identified market need as effectively and efficiently as possible while also benefiting low-income neighborhood residents and honoring the expectations that many community residents have for future development of their neighborhoods:

- A. To the greatest extent feasible, Northside residents and organizations will have an ownership or management stake in new businesses developed.
- B. Every effort will be made to identify financing, supply chains, and support strategies that return benefit to neighborhood residents, organizations, and institutions.
- C. Northside residents will be the primary beneficiaries of employment and advancement opportunities that arise from this development.

These expectations are, again, clearly aligned with the intentions of the Empowerment Zone and NEON collaborators are pursuing a scope of activity and direction that supports this vision.

IV. FUNCTIONS, PARTNERS, AND ACTIVITIES

NEON includes five "operating partners", one "community partner", and two "resource partners". Each is an established organization with a history of serving the north Minneapolis region, both independently, and in various collaborations with each other. Among the partners, "operating partners" are directly accountable for delivering services and achieving outcomes associated with NEON and may benefit financially from their participation in NEON; "resource partners" are sources of capital or other assets that can be leveraged through NEON's activities; and "community partners" serve as points of outreach and referrals for other services, and/or help to strengthen NEON's work on the Northside. At this time, "community partners" do not receive any significant financial benefit from their participation in the collaboration. Currently, partners are categorized as follows:

- Operating Partners: Neighborhood Development Center
Northside Residents Redevelopment Council
Emerge
Pieces, Inc. dba Renaissance Business Center
West Broadway Area Coalition
- Community Partner: Twin Cities Rise!
- Resource Partners: Local Initiatives Support Corporation
Mpls Consortium of Community Developers

Each of the functional components is outlined below together with a note about which NEON partners contribute to the component and how their work is strengthened through NEON. All measurable outcomes mentioned below (unless identified otherwise) represent annual outcomes which are tracked by calendar year. NEON's first full year of operation will be 2007.

A. Outreach and Entrepreneur Training

Historically, approximately thirty individuals have been trained each year through three classes operated on the Northside by NDC in conjunction with NRRC and WBAC. Recruitment for those classes has been primarily done by NRRC with support from WBAC and NDC.

Through NEON, seven classes will be held each year – more than doubling the training capacity that has historically been available on the Northside. Each NEON partner has a role in identifying and

recruiting individuals interested in pursuing business ownership and development. With additional staff capacity at NRRC, WBAC, and EMERGE paid for through NEON, the outreach effort will, over the full three years, roughly double what has been underway during the past decade – reaching more than 200 Northside residents annually, many of whom will be EZ residents, and creating a demonstrable impact on the community. NEON partners have strong anecdotal evidence that there is interest among many residents in becoming entrepreneurs. And, service levels from among workforce development providers indicates that there remains a significant market of underemployed Northside residents – particularly in the EZ – who may be candidates for small business ownership.

Past experience suggests that nearly twice as many individuals need to be recruited as will actually enter the NDC entrepreneur training. Through this outreach effort, individuals will be enrolled in NDC entrepreneur training classes or connected with other services (through EMERGE, TCR! and others) if their pursuit of business training is not appropriate or is interrupted for other reasons. Fulfilling the coordination strategy outlined above, NEON uses a common outreach effort to identify future entrepreneurs and to direct individuals not able to succeed in entrepreneur training to other appropriate services.

NDC classes are offered at NRRC, EMERGE, and at the new Renaissance Business Center operated in partnership with Pieces, Inc. As in the past, support for trainees is provided by both the NDC trainers in the class as well as staff from the “host agency”. A new entrepreneur training curriculum is being introduced by NDC that builds on NDC’s decades of experience and learning. This new curriculum is currently being ‘tested’ in partnership with the Minneapolis Public Library and will be available soon for NDC’s entrepreneur training classes. NEON financial support will pay for NDC’s expanded training classes, staff support among partners to handle outreach and recruitment tasks.

In addition to recruiting potential business owners for entrepreneur training classes, NEON’s outreach efforts yield many contacts with existing business owners who need additional training, financing, real estate assistance, or other support. The network of partners is developing communication mechanisms to ensure that as needs among Northside small businesses are identified; support can be provided from among NEON partners. Over time, NEON hopes to pair businesses with each other and/or create an “adopt-a-business” program where smaller independent businesses might be “adopted” by

larger more well-established businesses; or, perhaps by other peers who have skills, experience, and perspective to share. NEON partners know from experience that part of the value of group classes, larger group recruitment efforts, and many opportunities to bring trainees together is the formation of a “community of entrepreneurs” that brings tremendous additional value to these business development activities. Working with partners like WBAC and the West Broadway Business Association (WBBA), NEON expects to be a focal point for identifying and growing the “community of entrepreneurs” on the Northside. EZ funding provided in response to this request will support service to new, emerging, and existing entrepreneurs located in the Northside EZ.

B. Lending and Credit Awareness

Several existing partnerships including NDC, NRRC, the Minneapolis Consortium of Community Developers, City of Minneapolis, and others offer financing for new businesses throughout Minneapolis. Through NEON, new businesses are served with existing financing mechanisms, in particular through loan funds managed by NRRC and NDC. Through relationships with leaders of the MN Black Chamber of Commerce, NEON may also approach the African-American Economic Development Coalition to access additional capital to meet expected demand.

Typically, a high percentage of NDC training participants are not bankable because of bad personal credit, risk associated with business start-ups generally, and other factors. Consequently, lending and credit awareness are core components of what partners have provided in the past to Northside residents. The combined past experience among all NEON partners throughout the metro area has produced approximately 900 loans with remarkably low default rates from 8% to 11%. Through NEON, NRRC has additional staff capacity to support lending, credit awareness, and other support for emerging business owners. NEON may also provide subsidized support for other services through the partners (e.g., professional support at the Renaissance Business Center). Other services to be offered through NEON include:

- Financing through start-up loans as well as credit enhancement and/or business expansion loans from both private for-profit and nonprofit sources;
- Access to capital – loans are typically at 10% interest and structured comfortably for first-time business owners;
- Heavy technical assistance from lenders at all stages of the lending and business development process (this is a key to the very low default rate); and,

- “profit-based/Islamically acceptable” financing – a national model for specialized financing that serves the specific cultural needs of many new immigrant communities.

In addition to lending from existing NEON partners’ non-profit sources of capital and encouraging entrepreneurs to use other publicly-

**NEIGHBORHOOD BLIGHT
TO BUSINESS SITE**

Closed and vacant during most of the 1990s, a property on West Broadway stood as a glaring symbol of the lack of commercial activity in the neighborhood. A client approached NRRC with hopes of buying the building. With assistance from NRRC to develop a business plan and broker a relationship with the building owner, the client purchased the building and re-opened the business. Early in operation, the business owner had difficulty meeting city code expectations. Coaching, support, and advocacy with city leaders from WBAC helped get things back on track. The business was successfully operated and subsequently sold to a graduate of an NDC entrepreneur training class who also successfully operated the business. Subsequent owners benefited again from WBAC and NRRC help with new business equipment financing and building improvements. The building is in use today, with a successfully operating neighborhood business.

subsidized financing, a long-term goal will be to encourage more private investment in the region. To that end, NEON will strengthen the network over time to include private lenders and use its own resources to prepare entrepreneurs to be successful borrowers of private lending, as well as using all available public and nonprofit resources.

In 2006, a new staff person was added at NRRC to handle initial tasks associated with recruitment, lending,

and technical assistance to business trainees. Later in 2007 and in years two and three, NEON expects to add some additional staff capacity at NRRC and/or NDC and other partner organizations in support of NEON activities.

C. Business Siting

A key component of this strategy is the physical siting of businesses on West Broadway and other commercial arteries in North Minneapolis. WBAC will continue to be the principal conduit for connecting new businesses with appropriate locations, identifying and facilitating real estate opportunities for new businesses through its ongoing work with developers and existing building owners/managers. WBAC is identifying and focusing on high priority neighborhood needs and match those needs with available property at key nodes.

In addition, WBAC supports the following activities:

- Preparing and updating a monthly real estate inventory with building condition, ownership, status, available square footage, etc.;
- Marketing existing vacant and/or for sale properties to NEON participants and others;
- Identifying potential developers and building relationships between them and new business owners;
- Identifying funds for rehabilitation and renovation, providing guidance to developers and other regarding design guidelines and criteria;
- Administering facade improvement funds and physical enhancement programs on the West Broadway corridor; and,
- Creating and supporting sustainable maintenance programs such as business improvement districts and associated programs.

Through NEON, WBAC anticipates being able to hire qualified staff or consultants to handle the tasks outlined above. As noted earlier, any EZ funding provided to NEON will support business siting activities within the EZ. As appropriate, NEON will expand collaborative relationships to other organizations working further north in the Empowerment Zone. In the event that WBAC should require assistance, other NEON partners are prepared to offer staff in support of this function.

In addition to placements in vacant real estate along West Broadway, Pieces, Inc. is a partner in the Renaissance Business Center at 1011 West Broadway which serves as a business incubator – and will be home to new businesses developed through NEON. With financial support through NEON, the Renaissance Business Center (RBC) serves as a training site for resident and non-resident potential entrepreneurs and will be a venue to host one-on-one and group meetings that connect newly formed businesses with service providers including NEON partners named here. Twin Cities Rise! is also a tenant in the RBC and provides some shared staffing for reception and other common functions. This is another way in which NEON partners are leveraging each others' presence and skills toward our shared goals.

LISC and MCCD serve as resource partners for the access to capital they both bring to our collective efforts. LISC has access to a number of real estate development and financing tools that may be of value in NEON – particularly in helping to prepare more Northside properties for tenancy and/or purchase by NEON graduates. Through existing

relationships with several NEON partners, LISC provides operating support and lending assistance. LISC is exploring new ways to support commercial development, including its New Markets Support Company, which may be applicable to NEON implementation. MCCD provides lending finance and support to NEON businesses through NDC, NRRC, and others.

D. Technical Assistance and Support

There are numerous components to providing technical assistance and support to emerging businesses and newly trained entrepreneurs. NDC, NRRC, EMERGE, MCCD, and WBAC have all provided some of these services continuously to Northside businesses. In NEON, these organizations have expanded staff capacity (in varying degrees), together with the Renaissance Business Center, to provide technical assistance and support including (but not limited to):

- Business plan development;
- Business operations development and hands-on management;
- Marketing research and developing a marketing plan;
- Understanding and developing financial and cash flow statements;
- Staff development, personnel & employment issues;
- Decisionmaking and management for information technology;
- Creating a virtual presence in the marketplace; and,
- Other follow-up and support services.

Many of these services will be available through NDC's Business and Career Center located inside the Renaissance Business Center. Building on successful service models on Lake Street, NDC staff will create a regular presence in the RBC to support graduates as well as 'a la carte' customers with business support services. Envisioned to handle between ten and eighteen customers per month in such an arrangement, these services are in addition to those being provided directly by NEON staffer Grover Jones and/or other volunteers and partners.

NEON is also exploring relationships over time with other organizations that may be of assistance in the business development process. These organizations include SCORE, the Latino Economic Development Center (LEDC), African Development Center (ADC), Project for Pride in Living (PPL), all MCCD members, and Hmong American Mutual Association (HAMA) and others. Each of these organizations has current relationships with NEON partners and may be brought into the collaboration at a later stage of development.

Finally, it is important to note that another way in which NEON may eventually support emerging businesses is through some sort of “shared services” organization that can be an advisor to new and emerging businesses. NEON leaders are exploring the possibility of having a single (or neighborhood-level) “business/retail support” function that could work across businesses, industry sectors, and geography to support common “back room” functions that many small businesses face. This may be an appropriate joint activity with one or more of NEON’s partners and/or regional stakeholders which could, with EZ funding, support existing businesses and emerging entrepreneurs located in the EZ.

V. EXPECTED OUTCOMES AND EVALUATION

NEON seeks two core outcomes over a three-year implementation period to come specifically from the cohort of individuals who are trained and supported to develop businesses through the sequential functions outlined above:

1. Support 60 businesses developed from among Northside residents over the three-year implementation period
2. Place 60% of newly developed or expanded businesses on West Broadway or other Northside commercial areas

In addition, NEON has identified four intermediate/process outcomes to be met during the implementation period, some of which will come from individuals accessing services outside of the cohort of trainees identified above:

3. At least 225 potential entrepreneurs will be trained
4. At least 30 businesses will receive lending assistance packaged by NEON (loan packaging and lending from public and nonprofit loan sources)
5. At least 120 existing and start-up businesses will receive support to expand operations and/or staffing
6. At least 20 loans from private lenders packaged by NEON partners

Specific targets for the first full year of operation in 2007 are outlined in the attached “NEON Operating Plan 2007” document. NEON’s measurable outcomes, to be tracked through a three-year implementation period, will be supplemented by other measures of economic and social impact. Experience from among the collaborators is that there are many ancillary benefits to this type of training and business development work. During the early months of initial

operation, NEON partners have explored several methods of quantifying and valuing the outcomes of our work. This will eventually lead to a per-unit cost for successful outcomes (trainees complete and start a business) as well as a dollar value associated with other outcomes (non-completers, completers who do not start businesses, enrollees who choose other paths toward employment and income). We also anticipate developing a dollar value for services provided “a la carte” – to existing or emerging entrepreneurs who are not graduates of the NEON/NDC training classes. NEON partners expect to benchmark the value of each outcome and then track NEON progress relative to that benchmark.

NEON offers a competitive value relative to the City’s already strong return on investment in the City of Minneapolis Employment and Training Program (METP). To illustrate, consider that METP currently pays vendors approximately \$2400 for each job placement through its adult training and placement program. NEON will develop a more precise analysis of the cost (and value) of a trainee completing training and successfully beginning a business. However, at minimum, NEON collaborators approximate our costs per linear outcome (businesses opened as a result of individuals beginning in training classes) to be roughly \$14,000 per business. NDC historical data and analysis by the Wilder Research Center shows that, over time, just under 30% of NDC-assisted businesses add employees ranging from one to up to twelve, with the median being 3 additional employees. So, by the end of year one, with approximately 20 businesses expected to be established, NEON will have (conservatively estimated) created employment opportunity for 64 individuals. Even if paid at the METP placement rate of \$2400, this would be worth \$153,600. NEON is producing at least the METP outcome (individuals in jobs) and much more value (additional employment for others, commerce and service available to community, etc.). With this request in \$125,000 from the Minneapolis Empowerment Zone, NEON is already asking for a smaller contribution than it will likely return after a first full year of operation.⁴ NEON collaborators expect to more fully identify, quantify, and track outcomes and value-added during the three year project period.

NEON may also seek support from the NorthWay Community Trust research and evaluation staff and others to develop a set of leading and lagging impact measures that can be used to track progress as implementation of these strategies are underway. Some of these

⁴ Collaborating partners wish to stress that this is only a preliminary rough estimate and that actual costs per outcome may be very different after a first full year of operation.

indicators may include: changes in neighborhood spending patterns, identification of new community leaders and/or leadership structures, creation of new community gathering places, and other basic economic indicators (e.g., changes in poverty rate, business ownership, household wealth, etc.).

NEON partners feel strongly that evaluating our efforts and tracking progress over time is critical to successful implementation and future replication. As appropriate, NEON may contract with an independent party to analyze data from this effort and evaluate outcomes and process. Among the NEON partners, each has relationships with several potential evaluators/researchers who can be of support in this regard. Additional funds will be raised, if needed, to support evaluation efforts.

VI. GOVERNANCE AND BUDGET

NEON is managed cooperatively by its partners, with a representative from each partner serving as a member of a steering committee. NDC and NRRC provide leadership for NEON, with Mike Temali and Sherrie Pugh co-chairing the steering committee. A memorandum of understanding (MOU) has been developed among the partners which establishes expectations among the collaborators (see attachments). NEON partners meet regularly and have also contracted with an independent party (LukeWorks, LLC) to facilitate NEON partner meetings and provide support to NEON efforts. As co-chairs, Temali and Pugh provide close oversight to NEON staff (Grover Jones) and consultants (Luke Weisberg) and serve as final decision makers in steering the collaborative.

There is a clear commitment by all partners to reach the goals outlined here. In the event that one or more partners fail to reach expected goals and/or performance levels, payment for those services will be withheld. Therefore, all partners have a strong financial incentive to successfully deliver their component of the NEON "system". More importantly, as a key driver of this collaborative, NDC will ensure that the goals and objectives outlined here are met through the existing collaborative; or, if needed, by bringing in additional partners.

Fiscal management for NEON is currently provided by NRRC and may be shifted, if needed, per the wishes of current or future NEON investors. Agreements about fund disbursement within NEON, financial accountability, and reporting are agreed to in the MOU and articulated through partner discussions. The collaborative is currently working on financial control processes that will require partners to

invoice the collaborative for services rendered, with approval for payment being granted only after review by NEON staff and designated members. The fiscal agent for the collaborative is, ultimately, be responsible for the financial integrity of NEON and individual partners, by virtue of their commitments in the MOU, share proportionately in the risks and rewards of this venture.

The budget for NEON assumes new investments from philanthropic sources that leverage existing public and private investments. In addition, NEON collaborators have identified in-kind contributions to be applied to the costs associated with NEON implementation. Attached is a functional budget as well as a line-item project budget. As noted in the functional budget, existing loan funds (not formally a part of the budget) will be drawn upon – creating a strong leverage of existing loan funds relative to operating investments in NEON.

NEON has received funding from NorthWay Community Trust. This request to the Minneapolis Empowerment Zone, when granted, will provide approximately one-third of NEON's operating budget for 2007. General Mills Foundation has invited a proposal – which will be submitted in December 2006 and Mayor Rybak's 2007 budget request to the City Council includes funding for NEON through the Minneapolis Employment and Training Program. Collaborative partners are exploring funding from other private and philanthropic sources which do not currently fund any partners, as well as additional funding from philanthropists who do not currently provide support to NEON partners. NEON is about expanding capacity and outcomes – funding provided to NEON will either result in additional outcomes above current expectations of individual partners and/or may be supplant funding historically received by individual partners from area funders.

VII. CONCLUSION

The NEON partners are excited to have the opportunity to make an existing system bigger and better. The strategy outlined here will strengthen West Broadway and can be expanded and/replicated on other commercial corridors and in other areas with similar needs. NEON builds on existing strength, draws in new talent and energy, and is a vehicle to create the visible, catalytic change on the Northside that is needed for Northside residents and businesses.

APPENDICES

1. Collaborator Profiles
2. Three Year Functional Budget and 2007 Line-Item Budget
3. Biographies of key staff and partners
4. Documentation from NRRC as fiscal agent: recent audit and IRS 501(c)3 determination letter
5. Current Memorandum of Understanding
6. 2007 Operating Plan Summary of Goals and Objectives
7. Business Journal coverage regarding NEON

Additional materials are available, if desired, including:

- NDC Strategic Plan 2006-08
- NDC historical view of Northside entrepreneur development
- Evaluation material from Wilder Research on NDC entrepreneur training efforts

COLLABORATOR PROFILES

Neighborhood Development Center (NDC) is a community-based non-profit organization that works in the low-income communities of St. Paul, Minneapolis, surrounding suburbs and Greater Minnesota, helps emerging entrepreneurs develop successful businesses that serve their community, and to help community groups build a stronger neighborhood economy. NDC's programs are designed to help neighborhood entrepreneurs and community groups make highest positive impact on their own communities. NDC assists communities in local job creation, generating local income and wealth, strengthening the local economy, creating community leaders, creating visible and inspiring signs of redevelopment, and creating businesses that will serve as community gathering places. Most recently, NDC has served as the lead developer and manager of the Midtown Global Market and Plaza Verde; and, also serves as manager of the Mercado Central. NDC is an operating partner of NEON.

Northside Residents Redevelopment Council (NRRC) works to improve the quality of life through increasing economic, social involvement and affordable housing opportunities for the residents of the Near North and Willard Hay neighborhoods of Minneapolis. NRRC provides business consulting services that are visible and active in North Minneapolis. These consulting services are customized to meet each entrepreneur's needs, and supplement business development services offered by other organizations. NRRC provides training (in partnership with NDC), offers financing assistance, and support to established businesses. NRRC continues to increase its emphasis on serving the growing diversity of the neighborhood and responding to the needs of emerging populations in the community. NRRC is an operating partner of NEON.

EMERGE / Pillsbury United Communities (PUC), through its Community Employment and Economic Development Strategy, houses programs that work across Minneapolis neighborhoods to develop housing, strengthen employment and promote economic development – all to create a more viable community for Northside residents. Specific services include job training and placement, adult literacy, supportive and transitional housing services, business development and corridor redevelopment activities in conjunction with West Broadway Area Coalition. EMERGE offers a range of direct services that support entrepreneur trainees. Within the Northside Economic Opportunity Network, EMERGE helps with outreach efforts for entrepreneur trainees as well as provide workforce support and

services for emerging businesses. EMERGE is an operating partner of NEON.

Pieces, Inc. dba Renaissance Business Center is a partnership that brings resources from private business and land owners, entrepreneurs active in the African-American community and the north side. The Renaissance Business Center at 1101 West Broadway is an incubator for small businesses, developed by Pieces, members of the Minnesota Black Chamber of Commerce, and other African-American business leaders in the metro area. The Renaissance Business Center is a private business venture targeted to attract businesses owned by people of color and businesses which provide jobs and services in support of a stronger Northside. The incubator is a cost-effective means of promoting job creation and spurring economic development. Pieces, Inc. serves as an operating partner of NEON.

Twin Cities Rise! is a nonprofit organization with a mission to provide employers with skilled workers – primarily men from communities of color in the Twin Cities area – by training under- and unemployed adults for skilled jobs that pay a living wage of at least \$20,000 annually. Employers pay a training and development fee for hiring TCR! graduates, which provides the program with a source of income to cover a portion of program expenses. This fee-based model requires the program to be accountable to employers and the market, as companies won't pay fees unless job candidates have the skills they require. This guarantees that participants receive high quality training resulting in good-paying jobs. Twin Cities RISE!'s ultimate objective is to establish a new, market-driven approach to job preparation and long-term job retention that is financially sustainable, has a meaningful impact on concentrated poverty, and can influence industry practice and government policy. TCR! is a NEON community partner.

West Broadway Area Coalition (WBAC) is a nonprofit organization that brings people together on important issues and provides technical support to businesses and community groups. WBAC works to enhance the quality of life and grow jobs for residents, help new and existing business and improve safety and the physical environment of West Broadway. The mission of WBAC is bringing people, organizations, and businesses together to add life and vitality to the West Broadway area. WBAC is an operating partner of NEON.

Local Initiatives Support Corporation (LISC) helps nonprofit community development corporations (CDCs) transform distressed neighborhoods into healthy communities of choice and opportunity – good places to work, do business and raise children. LISC mobilizes corporate, government, and philanthropic support to provide CDCs with loans, grants, and equity investments; technical and management assistance; and local, statewide, and national policy support.

LISC is a national organization with a community focus. LISC program staff are based in every city (including the Twin Cities) and many of the rural areas where LISC-supported community development takes shape. In collaboration with CDCs, LISC staff help identify local priorities and challenges, delivering the most appropriate support to meet local needs. Since 1980, LISC has marshaled more than \$6 billion from 3,100 investors, lenders, and donors. In more than 300 urban and rural communities nationwide, LISC has helped 2,800 CDCs build or rehabilitate 160,000 affordable homes and almost 25 million square feet of retail, community, and educational space – totaling almost \$14 billion in development. LISC is a resource partner of NEON.

Minneapolis Consortium of Community Developers (MCCD) is an association of 27 nonprofit community development organizations committed to working collectively to build strong stable communities by leveraging resources for the development of people and places. For nearly twenty-five years, MCCD members have worked together to increase opportunities for development of quality, community-based projects through collaborative action on public policy issues, loan fund development, public education efforts, and long-term strategic planning. Through these efforts, we have been able to demonstrate the effectiveness and efficiencies gained by a shared vision of respect and cooperation on the economic development work of Minneapolis neighborhoods. MCCD serves as resource partner of NEON.

FUNCTIONAL BUDGET

Northside Economic Opportunity Network (NEON)
Three-year proposed implementation

	Year 1 2007	Year 2 2008	Year 3 2009	Total
INCOME				
Northway Community Trust	\$ 35,000	\$ 60,000	\$ 75,000	\$ 170,000
City of Minneapolis	75,000	125,000	125,000	325,000
Minneapolis Empowerment Zone	125,000	100,000	100,000	325,000
Funding Source D	15,000	15,000	30,000	60,000
Funding Source E	20,000	40,000	60,000	120,000
Funding Source F	25,000	40,000	50,000	115,000
Funding Source G	20,000	35,000	50,000	105,000
Partners in-kind contributions	<u>\$ 59,414</u>	<u>\$ 69,669</u>	<u>\$ 73,759</u>	<u>\$ 202,842</u>
Total Income	<u>\$ 374,414</u>	<u>\$ 484,669</u>	<u>\$ 563,759</u>	<u>\$ 1,422,842</u>
EXPENSES (by function)				
Outreach Efforts	\$ 33,990	\$ 62,618	\$ 70,827	\$ 167,434
Entrepreneur Training Classes	88,673	102,371	115,023	306,067
Lending and Credit Counseling	69,143	92,212	113,014	274,368
Business Siting	91,930	107,193	122,890	322,013
Technical Assistance and Support	<u>61,615</u>	<u>81,000</u>	<u>98,500</u>	<u>241,115</u>
Subtotal	\$ 345,350	\$ 445,394	\$ 520,253	\$ 1,310,997
Fiscal agent fee @ 8%	\$ 27,628	\$ 35,632	\$ 41,620	\$ 104,879
Total Expenses	<u>\$ 372,978</u>	<u>\$ 481,026</u>	<u>\$ 561,873</u>	<u>\$ 1,415,876</u>
INCOME-EXPENSE	\$ 1,436	\$ 3,643	\$ 1,886	\$ 6,966

NOTES

* 4% COL increase assumed from year to year unless line item was specifically identified

* 8% fiscal agent fee to NRRC

* Although not formally a part of this budget, we note that approximately \$5 million dollars is likely to be leveraged in loan funds relative to this operating budget.

NEON REVISED BUDGET
YEAR 1

Northside Economic Opportunity Network (NEON)

LINE-ITEM BUDGET <i>revised at 11-30-06</i>	PIECES Year 1	NDC Year 1	NRRC Year 1	EMERGE Year 1	WBAC Year 1	<i>2007</i> TOTAL Year 1
INCOME						
Northway Community Trust						\$ 35,000
City of Minneapolis						75,000
Minneapolis Empowerment Zone						125,000
Funding Source D						15,000
Funding Source E						20,000
Funding Source F						25,000
Funding Source G						20,000
Partners in-kind contributions	\$ -	\$ 16,500	\$ 42,914	\$ -	\$ -	\$ 59,414
TOTAL INCOME	\$ -	\$ 16,500	\$ 42,914	\$ -	\$ -	\$ 374,414
EXPENSES						
<u>Staffing</u>						
Partner leadership salary		5,200	5,200			
Partner line staff salary	-	20,800	90,000		30,000	140,800
Taxes	-	2,860	10,472	-	3,300	16,632
Benefits	-	7,800	28,560	-	9,000	45,360
Subtotal Staffing	<u>\$ -</u>	<u>\$ 31,460</u>	<u>\$ 129,032</u>	<u>\$ -</u>	<u>\$ 42,300</u>	<u>\$ 202,792</u>
<u>Operating</u>						
Advertising			12,500			12,500
Communications (Tel/Int)			1,500			1,500
Computer/Technology			2,500		2,500	5,000
Dues/Subscription			2,500			2,500
Legal/Financial Services			1,000			1,000
Meeting Expenses			1,250			1,250
Membership			2,000			2,000
Mileage			750		-	750
Occupancy via Lease	24,000		-			24,000
Postage			750			750
Printing/Copying			1,250			1,250
Professional Services	-	3,000	15,000	3,000	3,000	24,000
Supplies			1,000			1,000
Training & Seminars		56,000	3,000			59,000
Travel			1,500			1,500
Utilities			600			600
Workshop Fee			500			500
Other			1,500			1,500
Subtotal Operating	<u>\$ 24,000</u>	<u>\$ 59,000</u>	<u>\$ 49,100</u>	<u>\$ 3,000</u>	<u>\$ 5,500</u>	<u>\$ 140,600</u>
Subtotal Staff and Operating	<u>\$ 24,000</u>	<u>\$ 90,460</u>	<u>\$ 178,132</u>	<u>\$ 3,000</u>	<u>\$ 47,800</u>	<u>\$ 343,392</u>
Collaborative Admin/Fiscal Agent	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,471</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,471</u>
TOTAL EXPENSE	<u>\$ 24,000</u>	<u>\$ 90,460</u>	<u>\$ 205,603</u>	<u>\$ 3,000</u>	<u>\$ 47,800</u>	<u>\$ 370,863</u>
INCOME-EXPENSE						<u>\$ 3,551</u>

8% fiscal agent fee to NRRC

4% COL increase assumed from year to year unless line item was specifically identified



NORTHSIDE ECONOMIC OPPORTUNITY NETWORK (NEON)

BIOS FOR KEY STAFF AND LEADERSHIP

Grover Jones, NEON Loan Officer / Technical Assistant

Grover Jones has had twenty-five years experience in business development, finance, lending, and technical assistance to entrepreneurs. Prior to joining NEON, Grover was a small business owner of several enterprises including business consulting, facilities management and business finance. In his career, he has financed over sixty businesses (many through the federal Small Business Administration) and helped dozens more improve their efficiency and profitability. He is a Northside resident, actively involved in several Northside efforts, and committed to the prosperous business development of the Northside. He is a graduate of Southwestern College in Winfield, KS and has received additional training in business practices since that time.

Sherrie Pugh, NEON Co-Leader

Sherrie Pugh is the Executive Director of the Northside Residents Economic Development Council, a community development corporation in Minneapolis, Minnesota. She has over 20 years of hands-on experience in organizing, managing, and supporting non-profit community development corporations. Her work history includes stints as the Senior Program Manager of Economic Development for the Foundation for the Mid-South, located in Jackson, Mississippi, and Community Builder with the U.S. Department of Housing & Urban Development. She also served as Executive Director of the California Community Economic Development Association. Sherrie also serves as the Chair of the Board for the Minneapolis Consortium of Community Developers and in other community leadership positions.

Mihailo Temali, NEON Co-Leader

Mihailo (Mike) Temali is Executive Director of NDC, created in 1993 by Western Initiatives for Neighborhood Development (WIND), a community development corporation that is a subsidiary to St. Paul's Western Bank, also begun by Temali in 1990. NDC facilitates inner-city real estate development and economic development in several ways, including offering training classes like those being expanded through NEON. Most recently, Temali has shouldered responsibility for NDC's role as lead developer and manager of the Midtown Global Market, Plaza Verde and manager of Mercado Central. Previously, Temali was executive director of the North End Area Revitalization, Inc. and also worked with the Humphrey Institute of Public Affairs' Cooperative Community Development Program. He has been the recipient of a Bush Leadership Fellowship, was appointed to serve on the 2000 Governor's Task Force on Minority Small Business, and has held other leadership positions in community organizations and professional associations throughout his career.

**NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL
BUDGET
FOR YEAR ENDING DECEMBER 31, 2006**

SOURCES OF FUNDS	<u>Total Consolidated</u>
4100 DEVELOPMENT REVENUE	\$149,000
4150 Profit from Sales -	\$121,917
4400 CONTRIBUTION CORP.	\$135,000
4405 CONTRIBUTION FOUND.	\$120,000
4406 GENERAL GRANTS	\$50,000
4415 GOVERNMENT GRANTS - CITY	\$142,900
4420 GOVERNMENT GRANTS - STATE	\$86,000
GOVERNMENT GRANTS - EZ	\$30,125
4430 GOVERNMENT GRANTS - NRP	\$75,750
4432 HENNEPIN COUNTY NRP	\$60,770
4435 UNITED WAY	\$22,560
4440 MCKNIGHT FOUNDATION	\$50,000
4445 PROGRAM/PROJECT FEES	\$144,123
4450 MANAGEMENT FEES	\$46,200
4460 Maintenance fees	\$61,920
4490 Relocation fees	\$13,000
4480 APPLICATION FEE INCOME	\$1,440
4950 MISCELLANEOUS INCOME	\$0
TOTAL REVENUE	\$1,310,705
USES OF FUNDS	
6310 SALARIES	\$724,539
6709 STATE UNEMPLOYMENT TAX	\$14,445
6712 PAYROLL TAXES	\$55,427
6717 EMPLOYEE BENEFITS	\$81,732
TOTAL SALARIES & BENEFITS	\$876,144
<u>PROGRAM EXPENSE</u>	
6100 FINANCIAL ASSISTANCE/FRAP	\$13,770
6110 FINANCIAL ASSISTANCE/LOAN	\$120,600
6115 FINANCIAL ASSISTANCE/GRANT	\$15,000
6285 CONSULTING FEES	\$42,200
6300 PROGRAMS SUPPLY	\$600
6337 PROFESSIONAL FEES	\$32,000
TOTAL PROGRAM EXPENSE	\$224,170

OPERATING EXPENSES

6120 MEETING EXPENSE	\$2,950
6140 WORKSHOP FEES	\$645
6150 SERVICE FEES	\$3,350
6210 ADVERTISING	\$6,150
6220 BROCHURES AND FLYERS	\$1,725
6280 CREDIT CHECK EXPENSE	\$3,020
6300 PROJECT/PROGRAM SUPPLIES	\$1,025
6305 RENT-PROGRAMS	\$100
6311 OFFICE EXPENSE - SUPPLIES	\$5,933
6312 OFFICE RENT	\$37,280
6313 POSTAGE EXPENSE	\$4,738
6314 PRINTING & COPYING	\$5,300
6316 EQUIP/FURNITURE PURCHASE	\$4,400
6336 COMPUTER RELATED EXPENSE	\$10,850
6337 PROFESSIONAL FEES	\$11,650
6340 LEGAL EXPENSE	\$4,500
6347 COLLECTION FEES	\$250
6350 ACCOUNTING/BOOKEEPING FEES	\$0
6352 AUDIT EXPENSE	\$8,500
6356 TRAVEL	\$4,000
6360 TELEPHONE	\$15,237
6366 LEASED FURNITURE/EQUIPMENT	\$800
6381 MILEAGE REIMBURSEMENT	\$3,815
6382 ORGANIZATIONAL MEETINGS	\$500
6383 TRAINING & SEMINAR EXPENSE	\$4,500
6384 PERMITS & FEES	\$525
6387 DUES SUBSCRIPTION	\$2,475
6400 CONTRIBUTIONS	\$690
6432 JANITOR PAYROLL	\$17,522
6455 SNOW REMOVAL	\$600
6578 MAINTENANCE EQUIPMENT	\$1,200
6640 UTILITIES - HEATING	\$3,400
6641 UTILITIES - ELECTRICITY	\$2,900
6642 UTILITIES - WATER	\$1,900
6716 FEES, LICENSE, AND PERMITS	\$1,285
6723 WORKERS COMP. INSURANCE	\$3,925
6725 LIABILITY INSURANCE	\$4,400
6810 INTEREST-SHORT TERM LOAN	\$4,500
6830 BANK SERVICE CHARGES	\$1,500
6880 OTHER FEES	\$1,402
TOTAL OPERATING EXPENSE	<u>\$189,442</u>
TOTAL EXPENSES	<u>\$1,289,756</u>
NET SURPLUS/(DEFICIT)	<u><u>\$20,949</u></u>

Internal Revenue Service

Date: September 27, 2004

Northside Residents Redevelopment Council
Inc.
1313 Plymouth Ave. N
Minneapolis, MN 55411-4065

Department of the Treasury
P. O. Box 2508
Cincinnati, OH 45201

Person to Contact:

Michelle Jones 31-07675
Customer Service Specialist

Toll Free Telephone Number:

8:00 a.m. to 6:30 p.m. EST
877-829-5500

Fax Number:

513-263-3756

Federal Identification Number:

41-0975381

Dear Sir or Madam:

This is in response to your request of September 27, 2004, regarding your organization's tax-exempt status.

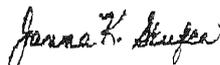
In July 1971 we issued a determination letter that recognized your organization as exempt from federal income tax. Our records indicate that your organization is currently exempt under section 501(c)(3) of the Internal Revenue Code.

Our records indicate that your organization is also classified as a public charity under sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code.

Our records indicate that contributions to your organization are deductible under section 170 of the Code, and that you are qualified to receive tax deductible bequests, devises, transfers or gifts under section 2055, 2106 or 2522 of the Internal Revenue Code.

If you have any questions, please call us at the telephone number shown in the heading of this letter.

Sincerely,



Janna K. Skufca, Director, TE/GE
Customer Account Services

**NORTHSIDE RESIDENTS
REDEVELOPMENT COUNCIL, INC.**

**CONSOLIDATED
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
DECEMBER 31, 2004**

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

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MAHONEY
ULBRICH
CHRISTIANSEN
RUSS P.A.
CERTIFIED PUBLIC ACCOUNTANTS

30 EAST PLATO BOULEVARD SAINT PAUL, MN 55107-1809
TELEPHONE 651.227.6695 FACSIMILE 651.227.9796

To the Board of Directors
Northside Residents Redevelopment Council, Inc.
Minneapolis, Minnesota

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statement of financial position of Northside Residents Redevelopment Council, Inc. and subsidiaries (NRRC) as of December 31, 2004 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of NRRC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from NRRC's 2003 financial statements and, in our report dated October 15, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northside Residents Redevelopment Council, Inc. and subsidiaries as of December 31, 2004, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 18 and 19 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
October 5, 2005

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2004
(With Comparative Totals for 2003)

	2004	2003
ASSETS		
Cash	\$ 39,364	\$ 70,031
Escrow deposits	130,256	120,770
Accounts receivable	143,886	22,428
Grants receivable	32,238	120,461
Contributions receivable	161,000	-
Prepaid expenses	10,286	8,761
Real estate under redevelopment	943,560	993,804
Notes receivable	2,611	5,195
Contracts for deed receivable	331,151	418,288
Office equipment, net	33,040	57,707
Real estate held for investment	1,738,726	1,976,737
Partnership investments	20,553	5,595
Due from affiliated organizations	6,010	10,487
	<u>\$ 3,592,681</u>	<u>\$ 3,810,264</u>
Total assets		
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 63,409	\$ 106,411
Accrued payroll and related	59,772	48,163
Accrued interest	306,845	280,046
Deposits held for others	31,430	42,908
Deferred revenue	171,786	109,201
Notes payable	810,431	752,589
Long-term debt	1,915,255	2,190,899
Partnership investments	37,733	-
Total liabilities	<u>3,396,661</u>	<u>3,530,217</u>
Net assets:		
Unrestricted net assets	(307,295)	8,732
Temporarily restricted net assets	503,315	271,315
Total net assets	<u>196,020</u>	<u>280,047</u>
Total liabilities and net assets	<u>\$ 3,592,681</u>	<u>\$ 3,810,264</u>

See accompanying notes to financial statements.

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2004
(With Comparative Totals for 2003)

	2004			2003
	Unrestricted	Temporarily Restricted	Total	
Revenues and support:				
Government grants	\$ 572,425	\$ -	\$ 572,425	\$ 1,032,693
Contributions	181,230	356,000	537,230	110,524
Satisfaction of time and purpose restrictions	124,000	(124,000)	-	-
Sales of real estate	337,008	-	337,008	565,641
Rental income	402,063	-	402,063	406,904
Gain on sale of real estate held for investment	133,582	-	133,582	-
Program service fees	130,653	-	130,653	72,292
Interest income	582	-	582	760
Miscellaneous income	11,710	-	11,710	19,251
Total revenues and support	<u>1,893,253</u>	<u>232,000</u>	<u>2,125,253</u>	<u>2,208,065</u>
Expenses:				
Program services	1,771,268	-	1,771,268	1,856,333
Management and general	382,106	-	382,106	353,108
Fundraising	55,906	-	55,906	73,075
Total expenses	<u>2,209,280</u>	<u>-</u>	<u>2,209,280</u>	<u>2,282,516</u>
Change in net assets	(316,027)	232,000	(84,027)	(74,451)
Net assets, beginning of year:	<u>8,732</u>	<u>271,315</u>	<u>280,047</u>	<u>354,498</u>
Net assets, end of year	<u>\$ (307,295)</u>	<u>\$ 503,315</u>	<u>\$ 196,020</u>	<u>\$ 280,047</u>

See accompanying notes to financial statements.

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2004
(With Comparative Totals for 2003)

	2004					2003
	Program services	Management and general	Fund raising	Eliminations	Total	
Salaries	\$ 377,628	\$ 262,991	\$ 33,717	\$ -	\$ 674,336	\$ 660,816
Employee benefits	48,982	34,113	4,373	-	87,468	93,989
Payroll taxes	31,539	21,964	2,816	-	56,319	52,664
	<u>458,149</u>	<u>319,068</u>	<u>40,906</u>	<u>-</u>	<u>818,123</u>	<u>807,469</u>
Consultant and professional fees	56,127	19,254	15,000	-	90,381	228,591
Advertising fees	1,452	363	-	-	1,815	5,192
Office rent	31,809	7,952	-	-	39,761	40,719
Supplies	4,901	1,225	-	-	6,126	21,528
Copying and printing	4,522	1,130	-	-	5,652	5,609
Professional development	10,560	2,640	-	-	13,200	19,057
Depreciation	19,734	4,933	-	-	24,667	12,461
Travel	12,098	3,025	-	-	15,123	5,448
Insurance	5,968	1,492	-	-	7,460	6,757
Interest	58,966	-	-	-	58,966	21,866
Miscellaneous	9,737	2,434	-	-	12,171	12,936
Postage	3,422	856	-	-	4,278	4,906
Subscriptions	2,918	729	-	-	3,647	3,797
Real estate taxes	-	-	-	-	-	3,690
Repairs and maintenance	40,519	10,130	-	-	50,649	25,329
Utilities and telephone	20,578	5,144	-	-	25,722	16,679
Bad debt expense	197	-	-	-	197	-
Licenses, permits and fees	1,032	258	-	-	1,290	1,208
Legal and acquisition fees	5,885	1,471	-	-	7,356	9,157
Cost of real estate sales	471,718	-	-	-	471,718	595,525
Mortgage assistance payments	68,155	-	-	-	68,155	82,817
Other program expenses	14,676	-	-	-	14,676	-
Loss from partnership investments	22,775	-	-	-	22,775	13,110
Rental real estate:						
Interest	49,654	-	-	-	49,654	57,166
Depreciation	91,455	-	-	-	91,455	88,163
Utilities	40,207	-	-	-	40,207	39,385
Real estate taxes	37,525	-	-	-	37,525	37,387
Insurance	15,539	-	-	-	15,539	15,279
Operating and maintenance	112,098	-	-	(34,445)	77,653	55,165
Management fee	39,278	-	-	(39,278)	-	-
Administrative	138,688	-	-	(5,349)	133,339	46,120
	<u>\$ 1,850,340</u>	<u>\$ 382,106</u>	<u>\$ 55,906</u>	<u>\$ (79,072)</u>	<u>\$ 2,209,280</u>	<u>\$ 2,282,516</u>

See accompanying notes to financial statements.

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2004
(With Comparative Totals for 2003)

Increase (Decrease) in Cash

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ (84,027)	\$ (74,451)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	116,122	100,624
Loss from partnership investments	22,775	13,110
Less gain on sale of real estate held for investment	(133,582)	-
Accounts receivable	(121,458)	8,251
Grants receivable	88,223	(73,226)
Contributions receivable	(161,000)	21,000
Escrow deposits	59,897	(71,316)
Prepaid expenses	(1,525)	(158)
Real estate under redevelopment	50,244	153,775
Due from affiliated organizations	4,477	10,560
Accounts payable	(43,002)	(40,754)
Accrued payroll and related	11,609	(6,867)
Accrued interest	26,799	44,011
Deposits held for others	(11,478)	2,025
Deferred revenue	62,585	(61,244)
Net cash from operating activities	(113,341)	25,340
Cash flows from investing activities:		
Purchase of real estate held for investment	(34,607)	(26,963)
Purchase of office equipment	-	(49,561)
Proceeds from sale of real estate held for investment	314,745	-
Proceeds from payment of notes and contracts receivable, net	89,721	11,761
Issuance of new contract for deed loans	-	(249,848)
Increase in housing rehabilitation escrow deposits	(69,383)	-
Net cash from investing activities	300,476	(314,611)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	233,912	236,703
Repayment of notes payable	(176,070)	(159,540)
Proceeds from issuance of debt	-	255,000
Repayment of debt	(275,644)	(58,003)
Net cash from financing activities	(217,802)	274,160
Net increase (decrease) in cash	(30,667)	(15,111)
Cash at beginning of year	70,031	85,142
Cash at end of year	\$ 39,364	\$ 70,031
Supplemental cash flow information:		
Cash paid for interest	\$ 67,052	\$ 19,372

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

1. **ORGANIZATION**

The Northside Residents Redevelopment Council, Inc., (NRRC) is a Minnesota nonprofit corporation organized in 1969 to coordinate resident involvement in housing and business redevelopment activities in North Minneapolis. Program services include residential and commercial development, citizen participation, housing and economic development.

A significant portion of revenues are from governmental grants. During 2004, approximately 27% of revenues and support came from the Federal government, the State of Minnesota and the City of Minneapolis.

NRRC has one program that offers the following services:

Mortgage Foreclosure Grant/Loan Program - This program is funded by the Family Housing Fund (FHF). NRRC disburses the funds as grants to homeowners who are in jeopardy of losing their property through foreclosure. If the property is sold, the homeowner is required to repay the total amount of financial assistance received under the program. The FHF is responsible for the recovery of loan proceeds.

Housing Development Projects - NRRC has develops, renovates and manages affordable housing. These units are available to low/moderate-income families and individuals. NRRC also develops and renovates single family homes for sale to market rate and low/moderate-income families.

Community Organizer Activities - NRRC works closely with the SAFE program and has an active Crime Prevention Task Force. The activities include establishing street patrols, a court monitoring process of drug offenders, assisting in drafting legislation, and grass roots organizing against specific dealers.

Citizen Participation and Community Building - NRRC provides a vehicle through which residents address specific problems and difficult issues facing the community and coordinate with services and programs available through the Minneapolis Department of Community Planning and Economic Development (CPED).

Economic Development Projects and Assistance to Small Businesses - NRRC participates with developers on virtually all economic development projects occurring in North Minneapolis. NRRC also works with CPED's various business loan programs in developing micro-loan programs to assist small businesses.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation - The consolidated financial statements included NRRC and its wholly owned subsidiaries NRRC Properties, Inc. (NPI) and Plymouth Penn Corporation (PPC). All significant intercompany accounts and transactions have been eliminated.

NRRC Properties, Inc. is a Minnesota nonprofit corporation organized in 1993 to develop and manage affordable housing in North Minneapolis. Plymouth Penn Corporation is a Minnesota for profit corporation organized in 1993 to develop and manage a shopping center in North Minneapolis.

The financial statements do not include activities of several other entities that NRRC has interests in (see Note 10).

Financial Statement Presentation - NRRC presents its financial statements in accordance with the SFAS Number 117, *Financial Statements of Not-For-Profit Organizations*. Accordingly, NRRC reports information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that are permanently restricted by donors for specific purposes. NRRC does not have permanently restricted net assets.

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.

Concentrations of Credit Risk - NRRC places its cash with several financial institutions. At times, the amount on deposit exceeds the insured limit of the institutions and exposes NRRC to a collection risk. Management reviews the credit worthiness of financial institutions on a regular basis. NRRC has not experienced any losses as a result of these deposits.

Real Estate Under Redevelopment - Real estate under development includes the cost of real estate purchased for development, architectural costs, construction costs and other development costs. If the property is to be sold, the costs are charged to expense at the time of sale. If the property is to be held for investment, the costs are transferred to the real estate held for investment account at the time the property is placed in service.

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

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

Office Equipment and Real Estate Held for Investment - Office equipment and real estate held for investment are carried at cost, with the exception of donated equipment which is recorded at fair market value at date of gift. Depreciation is provided for on a straight-line basis over the estimated useful life of the asset. The cost of maintenance and repairs is charged to expense as incurred; significant renewals or betterments are capitalized.

Investment in Other Entities - NRRC has an investment in ten partnerships, two limited liability companies and one nonprofit corporation. The investments are recorded at cost plus NRRC's share of earnings less NRRC's share of losses and cash distributions (the equity method). Partnership losses are not recorded in excess of the investment because the liabilities are primarily non-recourse. LLC losses are recorded in excess of the investment if the liabilities are recourse and NRRC has an obligation to fund the losses.

Contributions - Contributions, including unconditional promises to give, are recorded when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed Material and Services - Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are reported at their fair values in the period received.

Government Grants and Contracts - Government grants and contracts are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as deferred revenue.

Functional Allocation of Expenses - Expenses have been allocated between program and supporting service classifications based upon direct expenditures and estimates made by management.

Income Tax Status - NRRC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes. NRRC is not a private foundation and contributions to NRRC qualify as a charitable tax deduction for the contributor.

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

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

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 the financial statements for the year ended December 31, 2003, from which the summarized information was derived.

3. **ESCROW DEPOSITS**

In accordance with the provisions of various funding agreements, restricted cash is held in escrow for the following purposes:

	<u>2004</u>	<u>2003</u>
Escrow for housing rehabilitation	\$ 99,242	\$ 29,859
Deposits held for clients	4,802	81,468
Replacement reserves	10,353	9,244
Real estate taxes and insurance	<u>15,859</u>	<u>199</u>
Total escrow deposits	<u>\$ 130,256</u>	<u>\$ 120,770</u>

4. **CONTRIBUTIONS RECEIVABLE**

Contributions receivable are due \$101,000 in 2005 and \$60,000 in 2006.

5. **REAL ESTATE UNDER DEVELOPMENT**

The following is a summary of the real estate projects under development at year end:

	<u>2004</u>	<u>2003</u>
Plymouth Avenue project	\$ 663,092	\$ 670,407
2415 McNair	147,826	-
Lots held for development	82,642	-
Cecil Newman project	50,000	-
1825 Girard	-	250,830
1518 Morgan	<u>-</u>	<u>72,567</u>
	<u>\$ 943,560</u>	<u>\$ 993,804</u>

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

6. **NOTES RECEIVABLE**

Notes receivable consist of one note under NRRC's micro-loan program to assist small businesses.

7. **CONTRACTS FOR DEED**

At times NRRC sells single family houses subject to a contract for deed. The contracts for deed are partially funded by the MURL (Minnesota Urban and Rural Homesteading) Program. The contracts for deed are issued to qualified homebuyers under MURL program guidelines. There are two contracts for deed outstanding at December 31, 2004 (three at December 31, 2003). The contracts for deed are non-interest bearing and due in monthly installments for 15 or 20 years from the date of sale.

8. **OFFICE EQUIPMENT**

Office equipment consists of:

	<u>2004</u>	<u>2003</u>	<u>Estimated useful life- years</u>
Office equipment	\$ 145,189	\$ 145,189	1-5
Less accumulated depreciation	<u>(112,149)</u>	<u>(87,482)</u>	
	<u>\$ 33,040</u>	<u>\$ 57,707</u>	

9. **REAL ESTATE HELD FOR INVESTMENT**

Real estate held for investment consists of:

	<u>2004</u>	<u>2003</u>	<u>Estimated useful lives- years</u>
Land	\$ 168,200	\$ 200,511	
Buildings and improvements	<u>2,389,141</u>	<u>2,523,457</u>	20-30
	2,557,341	2,723,968	
Less accumulated depreciation	<u>(818,615)</u>	<u>(747,231)</u>	
	<u>\$1,738,726</u>	<u>\$1,976,737</u>	

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

10. **PARTNERSHIP INVESTMENTS (Continued)**

Assets of approximately \$9,400,000, rental revenues of \$3,400,000 and net income of \$810,000 included in the following table have not been audited. These amounts were taken from unaudited financial statements and income tax returns. The income tax returns are prepared using the income tax basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Summarized financial information for these organizations as of December 31, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Balance sheet:		
Property and equipment	\$19,020,630	\$18,185,767
Less accumulated depreciation	<u>(6,891,992)</u>	<u>(7,356,390)</u>
	12,128,638	10,829,377
Amortizable assets, net	335,985	339,680
Cash and reserves	2,399,191	1,075,001
Receivables	78,269	37,662
Other assets, primarily real estate for sale	<u>5,095,544</u>	<u>2,429,937</u>
 Total assets	 <u>\$20,037,627</u>	 <u>\$14,711,657</u>
 Long-term debt	 \$15,928,610	 \$13,380,429
Accrued interest	2,070,354	2,049,430
Due to General Partners	836,609	765,473
Accounts payable	834,181	309,168
Other liabilities	<u>977,751</u>	<u>340,555</u>
 Total liabilities	 20,647,505	 16,845,055
Partner's equity	<u>(609,878)</u>	<u>(2,133,398)</u>
 Total liabilities and partners' equity	 <u>\$20,037,627</u>	 <u>\$14,711,657</u>
 Statement of operations:		
Rental and other revenues	\$5,633,271	\$2,760,199
Operating expenses	<u>(4,275,614)</u>	<u>(2,351,355)</u>
	1,357,657	408,844
Interest expense	(435,898)	(475,316)
Depreciation and amortization	<u>(560,639)</u>	<u>(589,728)</u>
 Net income (loss)	 <u>\$ 361,120</u>	 <u>\$ (656,200)</u>

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

10. **PARTNERSHIP INVESTMENTS (Continued)**

Assets of approximately \$9,400,000, rental revenues of \$3,400,000 and net income of \$810,000 included in the following table have not been audited. These amounts were taken from unaudited financial statements and income tax returns. The income tax returns are prepared using the income tax basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 Statement of operations:		
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	<u>1,357,657</u>	<u>408,844</u>
Interest expense	(435,898)	(475,316)
Depreciation and amortization	<u>(560,639)</u>	<u>(589,728)</u>
 Net loss	 <u>\$ 361,120</u>	 <u>\$ (656,200)</u>

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

11. NOTES PAYABLE

Notes payable consist of the following:

	2004	2003
Plymouth Avenue project:		
\$250,000 revolving note payable to GMHC with interest at 3% above the prime rate, payable when construction financing is received.	\$ 249,710	\$ 249,710
Note payable to the Minnesota Nonprofit Assistance Fund with interest at 10%, the note is due in monthly installments of \$1,200 through April 30, 2006, when the remaining balance is due.	150,000	150,000
Note payable to Western Bank with interest at 2.5% above the index rate, the unpaid balance is due May 18, 2005.	149,664	149,833
Cecil Newman project:		
Recoverable grant due LISC without interest, due upon the earlier of closing of construction financing on the project or March 1, 2006.	50,000	-
Construction of 8 houses:		
Recoverable grant due LISC without interest, due upon the earlier of closing of homebuyer financing on the last of the eight houses or May 1, 2006.	50,000	-
Construction of houses (1 in each year):		
Advance on the line of credit to Northeast State Bank with interest at 4.25% on December 31, 2004. Note requires monthly interest payments and is due upon sale of the related property.	96,030	138,019
Working capital:		
Advance on the line of credit to the Minnesota Nonprofit Assistance Fund with interest at 10%, the unpaid balance is due August 30, 2006. Secured by all assets of NRRC.	65,027	65,027
	\$ 810,431	\$ 752,589

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

12. **LONG-TERM DEBT**

Long-term debt consists of:

	2004	2003
Plymouth Penn Corporation:		
CPED first mortgage payable with interest at 3% through August 1, 2007.	\$ 143,539	\$ 194,478
CPED deferred loan payable without interest, to be forgiven August 1, 2007, if not in default at that time.	502,000	502,000
CPED third loan payable with interest at 3%. Payable in monthly installments of \$368 beginning August 1, 2007 through August 1, 2022.	120,819	120,819
Camden Place:		
US Bank mortgage payable with interest at 6.26%, payable in monthly principal and interest payments of \$1,291 through November 15, 2007.	-	170,346
Lovell Square II:		
Mortgage payable without interest to the Minnesota Housing Finance Agency due October 5, 2022.	206,903	206,903
2519 Fremont:		
MHFA mortgage payable without interest. The note is due upon sale or default. The note is forgiven in 2017.	85,297	85,297
Morgan House:		
Mortgage payable due to the Minneapolis Community Planning and Economic Development with interest at 5% or the rate of appreciation of the property. The mortgage was due September 23, 2003. NRRC and the City are negotiating to extend the due date.	171,853	171,853
Family Housing Fund mortgage payable without interest, payable January 2008.	20,000	20,000

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

12. LONG-TERM DEBT (Continued)

Fremont Coop:

Mortgage payable due to Northeast State Bank with interest at 6.5%. The mortgage requires monthly payments of \$1,920 until July 9, 2008, when the remaining balance and any accrued interest are due in full. 245,875 252,423

Mortgage due to Minneapolis Community Planning and Economic Development with interest at 5%. The mortgage was due April 8, 1995. NRRC and the City are negotiating to extend the due date. 309,188 309,188

Mortgage due to Minneapolis Community Planning and Economic Development with no interest. The mortgage was due June 1, 1998. NRRC and the City are negotiating to extend the due date. 59,781 59,781

Mortgage due to the Family Housing Fund with interest of 14%. Principal and accrued interest are due August 31, 2008. 50,000 50,000

1825-27 Girard property:

Bremer Bank mortgage payable with interest at 9.25%, payable in monthly principal and interest payments of \$433 through April 26, 2010 when the balance is due. - 47,811

\$1,915,255 \$2,190,899

Maturities of debt are as follows:

2005	\$ 600,612
2006	61,875
2007	547,280
2008	242,469
2009	50,000
Later years	413,019
	<u>\$1,915,255</u>

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

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

The notes payable and long-term debt are secured by the related property.

Interest expense has been recorded using the stated rates of the various mortgage notes. Certain notes have stated interest rates that are less than the prevailing market rates. Interest on these notes has not been imputed because the rate is at the lender or governmental agency's customary lending rate.

13. **LEASE COMMITMENTS**

NRRC leases its office space under the terms of a lease which expires on November 1, 2005. Future rent payments of \$39,334 are due in 2005. Rent expense was \$39,761 in 2004 and \$40,719 in 2003. Rent expense is net of \$30,000 of revenue from sub-rental of the space in 2004.

14. **RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following:

	2004	2003
MURL revolving loan fund	\$ 250,000	\$ 250,000
NRP contract advances	20,750	20,750
Ciurej Memorial Fund	565	565
General operating pledges	161,000	-
Housing production	26,000	-
Just Equity program	45,000	-
	\$ 503,315	\$ 271,315

The MURL revolving loan fund represents funds from the Minnesota Urban and Rural Homesteading program which have been invested in contracts for deed (see Note 7). These assets are held for a revolving loan fund which is used to rehabilitate houses to be sold to qualified homebuyers. These funds are repayable to MHFA if NRRC no longer participates in the program.

Net assets were released from donor restrictions by incurring expenses for the restricted purpose or by the occurrence of other events specified by the donor.

(Continued)

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

15. **RETIREMENT PLAN**

NRRC has a 403(b) retirement plan covering all employees. NRRC does not make contributions to the plan.

16. **RELATED PARTY TRANSACTIONS**

NRRC received management fees and payroll reimbursements of approximately \$43,300 and \$44,000 during 2004 and 2003, respectively, from an unconsolidated partnership.

17. **CONTINGENCIES AND COMMITMENTS**

NRRC is a partner / member in general partnership, limited partnerships and LLC's. Accordingly, NRRC is contingently responsible for all obligations of these entities.

Expenses under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenses allowed under these grants, NRRC will record such disallowance at the time the final assessment is made.

SUPPLEMENTAL INFORMATION

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2004

	Northside Residents Redevelopment Council, Inc.				NRRRC Properties, Inc.			Plymouth Penn	Eliminations	Total
	Fremont Cooperative	Morgan House	1206 James Place	Camden Place	NPI Administrative	Fremont 2519	Total			
ASSETS										
Cash	\$ 24,831	\$ 5,885	\$ (946)	\$ 4,678	\$ -	\$ 34,448	\$ 528	\$ 4,388	\$ -	\$ 39,364
Escrow deposits	114,397	228	3,471	11,957	-	130,053	203	-	-	130,256
Accounts receivable	116,790	-	-	-	-	118,569	231	25,086	-	143,886
Grants receivable	32,238	-	-	-	-	32,238	-	-	-	32,238
Contributions receivable	161,000	-	-	-	-	161,000	-	-	-	161,000
Prepaid expenses	2,807	2,948	1,459	-	-	7,214	1,711	1,361	-	10,286
Real estate under redevelopment	943,560	-	-	-	-	943,560	-	-	-	943,560
Notes receivable	2,611	-	-	-	-	2,611	-	-	-	2,611
Contracts for deed receivable	331,151	-	-	-	-	331,151	-	-	-	331,151
Office equipment, net	33,040	-	-	-	-	33,040	-	-	-	33,040
Real estate held for investment	-	364,406	173,842	178,832	-	717,080	70,525	951,121	-	1,738,726
Partnership investments	20,553	-	-	-	-	20,553	-	-	-	20,553
Due from affiliates	47,127	78,295	5,200	-	-	130,622	-	-	(124,612)	6,010
Total assets	\$ 1,830,105	\$ 453,541	\$ 183,026	\$ 195,467	\$ -	\$ 2,662,139	\$ 73,198	\$ 981,956	\$ (124,612)	\$ 3,592,681
LIABILITIES AND NET ASSETS										
Accounts payable	\$ 38,745	\$ 10,419	\$ 3,127	\$ 686	\$ -	\$ 52,977	\$ -	\$ 10,432	\$ -	\$ 63,409
Accrued payroll and related	59,772	-	-	-	-	59,772	-	-	-	59,772
Accrued interest	17,586	144,657	128,860	-	-	291,103	-	15,742	-	306,845
Deposits held for others	2,386	5,410	1,965	-	-	9,761	7	21,662	-	31,430
Deferred revenue	171,684	102	-	-	-	171,786	-	-	-	171,786
Notes payable	810,431	-	-	-	-	810,431	-	-	-	810,431
Long-term debt	-	664,844	191,853	206,903	-	1,063,600	85,297	766,358	-	1,915,255
Partnership investments	37,733	-	-	-	-	37,733	-	-	-	37,733
Due to affiliates	83,098	1,634	-	-	-	84,732	30,590	9,290	(124,612)	-
Total liabilities	1,221,435	827,066	325,805	207,589	-	2,581,895	115,894	823,484	(124,612)	3,396,661
Net assets:										
Unrestricted net assets	103,355	(373,525)	(142,779)	(12,122)	-	(423,071)	(42,696)	158,472	-	(307,295)
Temporarily restricted net assets	503,315	-	-	-	-	503,315	-	-	-	503,315
Total net assets	608,670	(373,525)	(142,779)	(12,122)	-	80,244	(42,696)	158,472	-	196,020
Total liabilities and net assets	\$ 1,830,105	\$ 453,541	\$ 183,026	\$ 195,467	\$ -	\$ 2,662,139	\$ 73,198	\$ 981,956	\$ (124,612)	\$ 3,592,681

See independent auditor's report.

NORTHSIDE RESIDENTS REDEVELOPMENT COUNCIL, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2004

	Northside Residents Redevelopment Council, Inc.				NRR Properties, Inc.			Total	
	Fremont Cooperative	Morgan House	1206 James	Camden Place	Total	NPI Administrative	2519 Fremont		Plymouth Penn
Revenues and support:									
Government grants	\$ 572,425	\$ -	\$ -	\$ -	\$ 572,425	\$ -	\$ -	\$ -	\$ -
Contributions	537,230	-	-	-	537,230	-	-	-	-
Sales of real estate	337,008	-	-	-	337,008	-	-	-	-
Rental income	-	35,105	12,295	26,005	160,411	464	2,265	238,923	-
Gain on sale of real estate held for investment	-	-	-	133,582	133,582	-	-	-	-
Program service fees	209,725	-	-	-	209,725	-	-	-	(79,072)
Interest income	109	26	.297	-	535	-	2	45	-
Miscellaneous income	11,710	-	-	-	11,710	-	-	-	-
Total revenues and support	1,668,207	87,109	35,131	159,587	1,962,626	464	2,267	238,968	(79,072)
Expenses:									
Program services	1,325,896	164,038	32,596	29,857	1,582,815	4,927	22,193	240,405	(79,072)
Management and general Fund raising	382,106	-	-	-	382,106	-	-	-	-
	55,906	-	-	-	55,906	-	-	-	-
Total expenses	1,763,908	164,038	32,596	29,857	2,020,827	4,927	22,193	240,405	(79,072)
Change in net assets	(95,701)	(76,929)	2,535	(17,265)	(58,201)	(4,463)	(19,926)	(1,437)	-
Net assets, beginning of year	473,654	(279,679)	(60,041)	36,641	140,362	2,546	(22,770)	159,909	-
Transfers	230,717	(16,917)	(85,273)	(31,498)	(1,917)	1,917	-	-	-
Net assets, end of year	\$ 608,670	\$ (373,525)	\$ (142,779)	\$ (12,122)	\$ 80,244	\$ -	\$ (42,696)	\$ 158,472	\$ -
									\$ 196,020

MEMORANDUM OF UNDERSTANDING
FOR PARTNERS IN
NORTHSIDE ECONOMIC OPPORTUNITY NETWORK (NEON)

Neighborhood Development Center
Northside Residents Redevelopment Council
Pieces, Inc. dba Renaissance Business Center
West Broadway Area Coalition
Emerge / Pillsbury United Communities
Twin Cities Rise!
Local Initiatives Support Corporation
Minneapolis Consortium of Community Developers

I. Findings

The partners to this Memorandum of Understanding (MOU) jointly find:

- A. The North Minneapolis region has significant untapped potential to develop local entrepreneurs and that an entrepreneurial strategy toward economic development holds promise as a catalyst for the region;
- B. Siting of locally owned and operated businesses along West Broadway and other commercial corridors is a desired strategy toward the physical and economic revitalization of North Minneapolis; and
- C. The longstanding joint efforts to train entrepreneurs and create new businesses among northside residents can be strengthened and expanded through a formal partnership involving the partners named above.

Resolved: the organizations named above commit to a partnership to be known as the Northside Economic Opportunity Network (NEON).

II. Definitions

The following definitions will be used in the governance of NEON:

- A. *Operating Partner*: Partners in this collaborative have committed their respective organizations to work together. As staff and/or board representatives may change, NEON retains the commitment of the organization as a partner for the duration of the collaboration.
- B. *Strategic (aka Angel) Partner*: Strategic partners provide capital (and other) resources to critical to the operation of NEON and also provide linkages to other potential supporters and funders.
- C. *Community Partner*: Community partners do not have operating responsibilities with respect to the collaborative, but function as key allies in the design and delivery of NEON services.

- C. *Representative*: Each Operating Partner organization will have at least one (and may have more) designated representative who is able to attend partnership meetings and make decisions on behalf of her or his organization. Resource and Community Partners are also encouraged to have a designated representative attend all regular meetings.

III. Guiding Principles

NEON partners wish to collectively promote the following guiding principles during the course of their work:

- A. To the greatest extent feasible, services should not be duplicated. NEON partners will clarify their own responsibilities and core competencies and ensure that there is no duplication of effort within NEON. Further, NEON partners will strive to offer each other a "first right of refusal" in delivering services connected to NEON's purpose;
- B. All planning activities and operations should be managed as efficiently as possible – maximizing time, financial and other resources;
- C. Partners will promote clear and consistent communication within the partnership, and between the partnership and external parties;
- D. Transparency is critical in all NEON operations and decisionmaking;
- E. Partners are accountable to each other and to external parties for expected performance;
- F. NEON will deliver only high quality services that result in measurable performance outcomes;
- G. Be timely – partners will meet deadlines and respect each others' time; and,
- H. NEON will function as a learning collaborative, collecting data and completing analysis of it toward continuous improvement.

IV. Governance and Operational Guidelines

- A. NRRC and NDC will serve as leaders of NEON, facilitating collaborative efforts and providing overall direction to NEON.
- B. Decisionmaking within NEON will be made by representatives from partner organizations. It is preferred that partners discuss issues and potential decisions until consensus is comfortably reached among partners on key decisions. If that is not possible, at the discretion of NRRC and NDC representatives, votes will be cast, with one vote from each partner organization. A simple majority will rule.
- C. Partners will meet regularly to review operations and continue planning discussions for the future. Partners agree to keep representation at these

meetings as consistent as possible to ensure a smooth work flow within the collaboration.

- D. Partners will strive for open, clear, and frequent communications among each other and between the collaborative and external stakeholders. NDC and NRRC, as lead agencies, are responsible for facilitating communication as it relates to meeting schedules, decisions to be implemented, and management concerns. Each partner (all three categories) commits to sharing information that may be relevant to the collaboration in a timely fashion and without exclusion of any partner organization.
- E. Partners may hire contractors and/or other staff in support of NEON. Any such contractors will work at the direction of the partners, with specific work direction coming from designated representatives from NRRC and NDC.

V. Funding and Financial Management

- A. NRRC will serve as fiscal agent for NEON. As such, NRRC will be responsible for providing regular (quarterly) reports to all partners on funds received, disbursed, and encumbered in a format mutually agreed upon by all partners.
- B. In keeping with the guiding principles established above, funding will be sought in support of NEON as a collaborative with the understanding and full disclosure of all partners as to current and potential financial relationships.
- C. As funding is sought and received, it will be applied to operations in a "per unit" manner that allows activity to proceed appropriately toward the goals established by the partners.

VI. Other Considerations

- A. This MOU may be amended by mutual agreement of the partners at any time.
- B. Any partner may withdraw from the agreement with 90 days written notice to each of the other partners. As of the date of such notice, the withdrawing partner forfeits any claims to future income and to any expenses encumbered but not paid up to that point.
- C. Unless specified otherwise, this MOU will be in force beginning in March 2006 and ending in June 2009.



NORTHSIDE ECONOMIC OPPORTUNITY NETWORK (NEON)

2007 Operating Plan Summary of Goals and Objectives

NEON is implementing three broad strategies all intended to foster economic growth and vitality on Minneapolis' Northside – and to specifically improve economic outcome for low-income residents of the region. These three strategies are:

- Strengthening and expanding the existing “entrepreneur development system” so that more individuals are trained and more businesses developed;
- Focusing efforts to create a visible presence of new and expanded businesses along West Broadway in the Renaissance Business Center and other Northside commercial corridors; and,
- Building a strong network to support new and existing businesses, creating operational efficiencies and programmatic synergy that improves outcomes and extends the value of financial investments.

To pursue these three strategies, NEON has four functional categories of activity – all aimed at training and supporting Northside entrepreneurs. Following is a summary of NEON’s 2007 goals and objectives, organized by functional category of activity, and including overarching collaborative development goals. NEON operates on a calendar year, with all measurable goals cited here intended to be achieved from January through December 2007.

A) Outreach and Entrepreneur Training

1. NEON will host 7 entrepreneur training classes among partner sites, training approximately 75 Northside residents.
2. Over 100 individuals will be reached through marketing and referral efforts for classes. A portion (approximately 25%) will be referred to partners for job training or other services, as appropriate.

B) Lending and Credit Awareness

1. At least 18 businesses will receive financial counseling and/or actual financial assistance through NEON.
2. NEON expects to package up to 18 loans during the year using resources already available through NDC, MCCD and/or other sources of available capital. Total packaged value is expected to be approximately \$1,000,000. Of the total number of loans packaged, about 7 are expected to be financed through private, for-profit lenders.

C) Business Siting

1. Approximately 20 businesses will be established and/or expanded in some fashion during 2007.
2. Of these, approximately 4 will be sited along W. Broadway or other Northside commercial corridors.

D) Technical Assistance and Support

1. In addition to the 18 businesses receiving financial counseling and/or financial assistance, another 20 will receive some other type of business support through NEON staff, partners, and/or contractors. This may include business plan development, siting assistance, façade rebate application completion or other support.
2. NEON will support the establishment of 1 or more "projects" in which existing businesses may mentor emerging businesses; and/or new businesses will be supported through larger commercial development activities on the Northside.

E) Overarching Collaborative Growth

1. NEON will raise sufficient operating funds to meet its expected \$370,000 budget for 2007. NEON will also reach out to at least 10 funders who are not currently supporting existing entrepreneur development activities on the Northside.
2. Existing partners will explore the growth and expansion of the Network by forging relationships with at least 2 additional organizations now serving the Northside.
3. NEON partners will conduct a structured partnership evaluation at least once in 2007, using collaborative evaluation tools and individual inquiries to assess the health of the collaborative and create continuous improvement goals.

These are the measurable outcomes which correspond with planned three-year outcomes described in the NEON proposal. These outcomes will be used by NEON partners to gauge progress during 2007.

ECONOMIC DEVELOPMENT

Groups create network to spur business startups in north Mpls.

BY ELLEN P. GABLER
STAFF WRITER

Two community groups are beefing up efforts to spur business development along West Broadway Avenue.

They want entrepreneurs to open shops up and down north Minneapolis' main commercial corridor to help rejuvenate the area that is now better known for crime and struggling businesses.

The Neighborhood Development Center (NDC) and Northside Residents Redevelopment Council (NRRC) have launched NEON — Northside Entrepreneurs' Opportunity Network — to train more business owners and encourage them to locate in north Minneapolis.



Temali

It's not an entirely new idea. For 11 years NDC and NRRC have trained about 350 entrepreneurs from north Minneapolis. However, many of the alumni start home-based businesses or end up in another part of the Twin Cities. Of those 350 entrepreneurs, 55 are still in business. About 35 of that 55 have home-based companies, 10 run their businesses out-

side of north Minneapolis and just 10 remain in the neighborhood.

Unless they're in the neighborhood, business owners are essentially invisible to the community, said Mike Temali, NDC's executive director.

"As role models they are much more potent if people can see them," he said.

Besides pushing training, NEON will help potential business owners tap into financing and find real estate.

NRRC is in the midst of hiring two full-time loan officers while another community group, the West Broadway Area Coalition, is compiling a list of available space and rents.

NRRC and NDC will offer six or seven of their 16-week business-planning classes each year compared with the usual two classes.

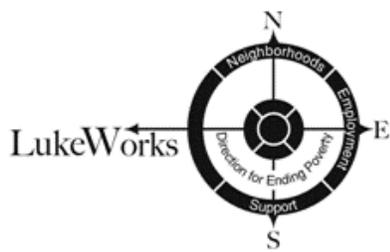
So far the groups have received a \$60,000 grant from the NorthWay Community Trust and are talking with the city's Community Planning and Economic Development (CPED) division for \$75,000 more.

NEON is seeking funds from other foundations as well, Temali said. The effort will cost about \$397,000 for its first year.

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