

# Annual Financial Report

**Twin Cities RISE**  
Minneapolis, Minnesota

As of and For the Year Ended  
September 30, 2017

TWIN CITIES RISE  
MINNEAPOLIS, MINNESOTA

FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED  
SEPTEMBER 30, 2017

Twin Cities RISE  
Table of Contents  
For the Year Ended September 30, 2017

	<u>Page No.</u>
<b>Independent Auditor's Report</b>	3
<b>Financial Statements</b>	
Statement of Financial Position	6
Statement of Activities	7
Statement of Functional Expenses	8
Statement of Cash Flows	9
Notes to the Financial Statements	10



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Twin Cities RISE  
Minneapolis, Minnesota

### **Report on Financial Statements**

We have audited the accompanying financial statements of Twin Cities RISE (the Organization), a Minnesota not-for-profit corporation, which comprise of the statement of financial position as of September 30, 2017 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

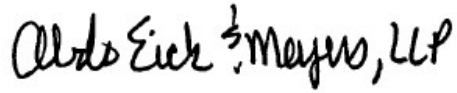
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Correction of Error

As described in Note 11 to the financial statements, certain errors resulting in overstatements of amounts previously reported for deferred rent and occupancy expense as of September 30, 2016, were discovered by management of the Organization during the current year. Accordingly, an adjustment has been made to retained earnings as of October 1, 2016, to correct the error. Our opinion is not modified with respect to that matter.



ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
February 15, 2018

## FINANCIAL STATEMENTS

Twin Cities RISE  
Statement of Financial Position  
September 30, 2017

Assets

Current Assets

Cash and cash equivalents	\$ 1,542,732
Pledges receivable (less allowance for doubtful accounts of \$1,000)	845,916
Pay for Performance receivable	44,000
Other receivables (less allowance for uncollectible accounts of \$4,301)	41,184
Prepaid expenses	<u>54,801</u>
Total Current Assets	<u>2,528,633</u>

Furniture and Equipment

Leasehold improvements	498,364
Furniture and equipment	83,794
Computer equipment and software	<u>326,113</u>
Total Furniture and Equipment, Cost	908,271
Less Accumulated Depreciation	<u>(528,554)</u>
Total Furniture and Equipment, Net	<u>379,717</u>

Other Assets

Pledges receivable (net of discount of \$142,071)	1,907,046
Other assets	<u>21,393</u>
Total Other Assets	<u>1,928,439</u>

Total Assets	<u><u>\$ 4,836,789</u></u>
--------------	----------------------------

Liabilities

Current Liabilities

Accounts payable	\$ 54,037
Accrued liabilities	154,378
Accrued rent, current	31,501
Deferred revenue	<u>143,994</u>
Total Current Liabilities	383,910

NON-CURRENT LIABILITIES

Accrued rent, non-current	<u>28,268</u>
Total Liabilities	<u>412,178</u>

Net Assets

Unrestricted	905,189
Temporarily restricted	<u>3,519,422</u>
Total Net Assets	<u>4,424,611</u>

Total Liabilities and Net Assets	<u><u>\$ 4,836,789</u></u>
----------------------------------	----------------------------

See Independent Auditor's Report and Notes to the Financial Statements.

Twin Cities RISE  
Statement of Activities  
For the Year Ended September 30, 2017

**Unrestricted Revenue and Other Support**

Public Support	
Contributions	\$ 1,465,200
In-kind contributions	31,551
Special events revenues, net of direct expenses of \$54,202	279,148
Total Public Support	<u>1,775,899</u>
Program Related Revenue	
Placement and retention fees	896,200
Customer and business training	252,027
Contract services	89,441
Total Program Related Revenue	<u>1,237,668</u>
Government Grants	<u>34,962</u>
Other Income	
Interest and dividend income	523
Loss on sale of donated investments	(3,013)
Miscellaneous	580
Total Other Income	<u>(1,910)</u>
Total Unrestricted Revenue and Other Support	<u>3,046,619</u>
Net Assets Released from Restrictions for Expenses	
Net assets released from restrictions - purpose/time met	251,768
Net assets released from restrictions - empowerment campaign	337,859
Total Net Assets Released from Restrictions for Expenses	<u>589,627</u>
Total Unrestricted Revenue and Other Support and Releases for Expenses	<u>3,636,246</u>
Expenses	
Program services - training	2,544,685
Supporting services	
Management and general	381,484
Fundraising	561,991
Total Expenses	<u>3,488,160</u>
Excess of Unrestricted Revenue and Other Support and Releases for Expenses over Expenses	<u>\$ 148,086</u>
<b>Unrestricted Net Assets</b>	
Excess of unrestricted revenue and other support and releases for expenses over expenses	\$ 148,086
Net assets released from restrictions - note payable payments	362,610
Increase in Unrestricted Net Assets	<u>510,696</u>
Temporarily Restricted Net Assets	
Public support contributions	2,553,677
Net assets released from restrictions	(952,237)
Increase in Temporarily Restricted Net Assets	<u>1,601,440</u>
Net Assets, Beginning	2,374,829
Prior Period Adjustment - Accrued Rent	<u>(62,354)</u>
Net Assets, Ending	<u>\$ 4,424,611</u>

See Independent Auditor's Report and Notes to the Financial Statements.



Twin Cities R!SE  
Statement of Functional Expenses  
For the Year Ended September 30, 2017

	Program Services	Management and General	Fundraising	Total Expenses
Expenses				
Payroll and benefits	\$ 1,746,151	\$ 232,820	\$ 349,230	\$ 2,328,201
Occupancy costs	229,773	30,637	45,952	306,362
Participant training, support and assessment	197,897	-	-	197,897
Empowerment Campaign	-	-	78,000	78,000
Consultants	78,758	16,232	30,347	125,337
Professional fees	-	44,667	-	44,667
Supplies and equipment	36,722	4,896	7,345	48,963
Subcontractors - government grants	40,213	-	-	40,213
Marketing	26,129	-	26,128	52,257
Administrative fees	8,196	1,093	1,639	10,928
Other	9,745	11,910	-	21,655
Travel	22,415	2,989	4,482	29,886
Recruitment	54,347	-	-	54,347
Telephone	18,959	2,528	3,791	25,278
Insurance	-	15,530	-	15,530
Interest expense	-	8,132	-	8,132
Staff development	6,423	856	1,285	8,564
Total Functional Expenses Prior to Depreciation	<u>2,475,728</u>	<u>372,290</u>	<u>548,199</u>	<u>3,396,217</u>
Depreciation	68,957	9,194	13,792	91,943
Total Expenses	<u>\$ 2,544,685</u>	<u>\$ 381,484</u>	<u>\$ 561,991</u>	<u>\$ 3,488,160</u>

See Independent Auditor's Report and Notes to the Financial Statements.

Twin Cities RISE  
Statement of Cash Flows  
For the Year Ended September 30, 2017

Cash Flows from Operating Activities	
Change in net assets	\$ 2,112,136
Adjustment to reconcile change in net assets to net cash provided by operating activities	
Depreciation	91,943
Change in assets	
Pledges receivable, net	(905,564)
Pay for Performance receivable	159,600
Other receivables	(15,440)
Prepaid expenses	47,418
Change in liabilities	
Accounts payable	32,507
Accrued liabilities	20,975
Accrued rent	(2,585)
Deferred revenue	(1,364)
	1,539,626
Net Cash Provided By Operating Activities	1,539,626
Cash Flows From Investing Activities	
Purchase of furniture, equipment and leasehold improvements	(28,708)
Cash Flows From Financing Activities	
Payments on note payable	(389,598)
	1,121,320
Change in Cash and Cash Equivalents	1,121,320
Cash and Cash Equivalents, October 1, 2016	421,412
	\$ 1,542,732
Cash and Cash Equivalents, September 30, 2017	\$ 1,542,732
Supplemental Disclosures of Cash Flow Information	
Cash paid during the year for	
Interest	\$ 8,132
	\$ -
Income Taxes	-
Supplemental Non-Cash Transactions	
Prior period adjustment - deferred rent	\$ 62,354

See Independent Auditor's Report and Notes to the Financial Statements.

Twin Cities R!SE  
Notes to the Financial Statements  
For the Year Ended September 30, 2017

**Note 1: Summary of Significant Accounting Policies**

**A. Nature of Activities**

Twin Cities R!SE (the Organization), based in Minneapolis and Saint Paul, Minnesota, is an organization dedicated to providing employers with skilled workers - primarily men from communities of color - by training under - and unemployed adults for skilled jobs that pay a living wage. The Organization uses a 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 practices and government policy.

**B. Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

**C. Revenue Recognition**

***General***

Unrestricted, single-year contributions are recognized as revenue in the year received or unconditionally pledged. In the event of a multi-year contribution, the Organization recognizes the first year as unrestricted with the remaining contribution as temporarily restricted. These multi-year contributions are then released from temporarily restricted net assets based upon the passage of time provided no other restrictions exist.

All contributions are available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

***Grants***

Revenues from cost reimbursement grant awards are recognized as costs are incurred. Grant expenditures in excess of the related grant monies drawn-down or received are recorded as grant funds receivable. Revenues from Pay for Performance grant awards are recognized as outcomes are realized.

***Contributed Services and Materials***

The Organization records various types of in-kind support, including professional services and materials.

Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Contributions of tangible assets are recognized at fair market value when received. The amounts recorded as in-kind support are offset by either (1) like amounts included in expenses or (2) like amounts capitalized as fixed assets.

**D. Cash and Cash Equivalents**

For purposes of the statements of cash flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Twin Cities RISE  
Notes to the Financial Statements  
For the Year Ended September 30, 2017

**Note 1: Summary of Significant Accounting Policies (Continued)**

**E. Pledges Receivable**

Pledges are recorded at the amount management expects to collect from outstanding balances. Management provides for probable uncollected amounts through a charge to earnings and a credit to a valuation allowance. The valuation allowance is determined based on historical experience and management's analysis of specific balances. Pledges are recorded after being discounted to anticipated net present value of the future cash flows. Conditional promises to give are not included as support until the conditions are substantially met. There are no conditional promises to give as of September 30, 2017.

**F. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements with an individual cost of \$1,000 and a useful life of more than three years are recorded at cost or, in the case of contributed property, at fair market value at date of contribution and depreciated over their useful lives. Depreciation is computed using the straight-line method over estimated useful lives of three to five years. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in the change in net assets for the period. The cost of maintenance and repairs is charged to expense as incurred.

**G. Net Assets**

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence and nature of donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted* - Resources over which the Board of Directors has discretionary control, including amounts designated by Board action for specific purposes and undesignated amounts.

*Temporarily Restricted with Respect to Time or Purpose* - Those resources subject to a donor-imposed restriction which will be satisfied by actions of the Organization or the passage of time.

*Permanently Restricted* - Those resources subject to a donor-imposed restriction that they be maintained permanently. At September 30, 2017, the Organization had no permanently restricted resources.

**H. Excess of Unrestricted Revenue and Other Support and Releases for Expenses over Expenses**

Excess of unrestricted revenue and other support and release for expenses over expenses does not include net assets released from restrictions used to make principal payments on the note payable.

**I. Functional Allocation of Expenses**

The costs of providing programs and administration of the Organization have been summarized on a functional basis. Accordingly, certain costs have been allocated between program, management and general and fundraising.

**J. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Twin Cities RISE  
Notes to the Financial Statements  
For the Year Ended September 30, 2017

**Note 2: Receivables**

**A. Pledges Receivable**

Pledges receivable represent amounts committed by donors that have not been received by the Organization. Pledges due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.5 percent.

Pledges receivable consist of the following:

Amounts Due in:

Less than one year	\$ 846,916
More than one year	<u>2,049,117</u>
Totals	2,896,033
Less: Allowance for uncollectible pledges	(1,000)
Less: Net present value discount	<u>(142,071)</u>
Total Pledge Receivables	<u>\$ 2,752,962</u>

**B. Other Receivables**

Other receivables primarily include Pay for Performance fees, contractual training fees, participant loans and participant contracts. Some of these receivables are considered to be uncollectible; accordingly, total allowances of approximately \$4,301 for estimated doubtful accounts is provided for the year ended September 30, 2017. This allowance reflects the Organization's historical experience with collecting these other receivables.

**Note 3: Line of Credit**

The Organization renewed a \$250,000 revolving line of credit with Sunrise Banks on May 28, 2017 which matures August 28, 2018, at which point the Organization is planning on further renewing the line of credit. The line of credit carries a variable interest rate of Prime, as published in the Wall Street Journal Midwest Edition, plus 1.5 percent with a floor rate dependent on compensating balances at a minimum of 5.00 percent. In addition, the line of credit includes certain annual covenants, which were met during the year ended September 30, 2017. During 2017 no amounts were drawn against the line of credit.

**Note 4: Notes Payable**

The following notes payable were paid in full with a transfer from temporarily restricted funds of \$362,610 in January 2017:

On July 10, 2015, the Organization obtained a note payable from Sunrise Bank in the amount of \$306,000. The note bore an interest at a rate of 4.50% per annum, and principal and interest were payable monthly in the amount of \$5,750. The note was to mature on July 10, 2020, and was secured by the business assets of the Organization.

On July 10, 2015, the Organization also obtained a note payable from the Nonprofits Assistance Fund in the amount of \$204,000. This note bore an interest at a rate of 7.00% per annum, and principal and interest were payable monthly in the amount of \$4,040. The note was to mature July 10, 2020, and was secured by the business assets of the Organization.

Twin Cities RISE  
Notes to the Financial Statements  
For the Year Ended September 30, 2017

**Note 5: Temporarily Restricted Net Assets**

Temporarily restricted net assets at September 30, 2017 consisted of the following:

Empowerment Campaign	\$ 3,379,222
Time Restriction	140,200
Total	<u><u>\$ 3,519,422</u></u>

The Organization launched the Empowerment Campaign in the spring of 2016 to take its successful program and business model to change-making scale. The campaign goal is a minimum of \$7 million. The three main focus areas of the campaign include build or purchase a building to accommodate future growth and reduce on-going expenses; invest in internship scholarships to enable more individuals to attend and complete the program; and to dramatically expand its successful Empowerment Institute to build capacity with other organizations so they can improve their own results.

**Note 6: Contributed Services and Goods**

The Organization has recognized \$31,551 of revenue for contributed participant support with a like amount included as an expense.

Participant support consists of contributed materials provided to participants and are recorded as program services. In addition, many individuals have donated significant amounts of their time in organizational governance, program services and fundraising efforts. No amounts have been reflected in the statements for these donated hours as they do not meet the accounting principles criteria for recognition.

**Note 7: Operating Leases**

The Organization leases certain equipment and office space under operating lease agreements expiring at various dates through December 2025. In addition to base rental payments, certain office leases require the Organization to pay its proportionate share of real estate taxes, special assessment and maintenance costs. The expense is being recognized on a straight-line basis over the life of the lease, as a result accrued rent at September 30, 2017 is \$59,769. Rent expense under operating leases was approximately \$234,353 for the year ended September 30, 2017, respectively.

Approximate minimum future annual lease payments required under these leases at September 30, 2017 are as follows:

For the year ended September 30,	
2018	\$ 216,282
2019	244,856
2020	257,696
2021	269,851
2022	266,604
Thereafter	<u>678,278</u>
Total	<u><u>\$ 1,933,567</u></u>

Twin Cities RISE  
Notes to the Financial Statements  
For the Year Ended September 30, 2017

**Note 8: Income Tax Status**

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. The Organization is a non-private foundation and contributions to the Organization may qualify as a charitable tax deduction by the contributor.

Management has evaluated and determined that there are no uncertain tax positions as of September 30, 2017. Tax returns for the past three years remain open for examination by tax jurisdictions.

**Note 9: Employee Benefit Plan**

The Organization sponsors a 403(b) retirement plan for all of its employees meeting minimum eligibility requirements. The Plan provides that the Organization may elect to match contributions up to a maximum percentage of the employee's contribution. The match percentage is determined annually and may change at any time. The Organization made matching contributions to the Plan during the year ended September 30, 2017 of \$34,776.

**Note 10: Contingencies**

The Organization is subject to various legal proceedings in the normal course of business. Management believes the outcome of these proceedings will not have a material adverse effect on the Organization's financial position or results of operations.

**Note 11: Prior Period Adjustment**

Unrestricted beginning net assets for the year ended September 30, 2016 have been adjusted for accrued rent in the amount of \$62,354. The Organization determined the office space leases were not being recognized on a straight-line basis over the term of the lease and adjusted prior period net assets to accurately record the expense and record an accrued rent amount.

**Note 12: Subsequent Events**

Subsequent events have been evaluated through February 15, 2018, which is the date the financial statements were available to be issued.