

RENAISSANCE ENTREPRENEURSHIP CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Renaissance Entrepreneurship Center

Report on the Financial Statements

We have audited the accompanying financial statements of Renaissance Entrepreneurship Center (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2013, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Renaissance Entrepreneurship Center as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Summarized Comparative Information

We have previously audited Renaissance Entrepreneurship Center's 2012 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 16, 2013. In our opinion the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

San Francisco, California
June 23, 2014

RENAISSANCE ENTREPRENEURSHIP CENTER

STATEMENT OF FINANCIAL POSITION

December 31, 2013

With comparative totals at December 31, 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 1,529,806	\$ 583,086
Accounts receivable	260,004	916,856
Certificates of deposit (Note 3)	211,761	211,512
Prepaid expense and other assets	118,210	128,163
Investments (Note 4)	2,697	2,697
Property and equipment (Note 5)	1,477,652	1,359,287
Total assets	\$ 3,600,130	\$ 3,201,601
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 149,389	\$ 114,041
Accrued liabilities (Note 6)	172,076	92,849
Note payable (Note 7)	2,203,585	1,586,767
Total liabilities	2,525,050	1,793,657
Net assets		
Unrestricted	637,058	628,608
Temporarily restricted (Note 10)	438,022	779,336
Total net assets	1,075,080	1,407,944
Total liabilities and net assets	\$ 3,600,130	\$ 3,201,601

The accompanying notes are an integral part of these financial statements.

RENAISSANCE ENTREPRENEURSHIP CENTER

STATEMENT OF ACTIVITIES

For the year ended December 31, 2013

With comparative totals for the year ended December 31, 2012

	Unrestricted	Temporarily Restricted	2013	2012
Revenue and support				
Contributions (Note 11)	\$ 1,362,493	\$ 725,992	\$ 2,088,485	\$ 2,418,504
Fees and grants from government agencies (Note 12)	718,596	-	718,596	716,054
Incubator rent and fees	335,489		335,489	277,093
Program service fees	133,989		133,989	85,893
Special events (net of expenses of \$48,994)	101,285		101,285	123,800
Donated property and equipment (Note 10)	88,546		88,546	-
Other income	1,608		1,608	8,622
Net assets released from program restrictions	1,067,306	(1,067,306)	-	-
	3,809,312	(341,314)	3,467,998	3,629,966
Expenses				
Program services	2,925,780		2,925,780	2,551,634
Management and general	610,279		610,279	414,909
Fundraising	264,803		264,803	214,764
	3,800,862	-	3,800,862	3,181,307
Change in net assets	8,450	(341,314)	(332,864)	448,659
Net assets, beginning of year	628,608	779,336	1,407,944	959,285
Net assets, end of year	\$ 637,058	\$ 438,022	\$ 1,075,080	\$ 1,407,944

The accompanying notes are an integral part of these financial statements.

RENAISSANCE ENTREPRENEURSHIP CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2013

With comparative totals for the year ended December 31, 2012

	Program Services	Management and General	Fundraising	Total Expenses	
				2013	2012
Salaries	\$ 1,160,729	\$ 241,330	\$ 174,592	\$ 1,576,651	\$ 1,266,369
Employee benefits	114,741	56,263	24,356	195,360	129,313
Payroll taxes	95,153	20,018	14,152	129,323	109,148
Total personnel costs	<u>1,370,623</u>	<u>317,611</u>	<u>213,100</u>	<u>1,901,334</u>	<u>1,504,830</u>
Occupancy	534,380	74,715	1,590	610,685	493,089
Consultants and instructors	496,308		170	496,478	489,771
Professional fees	229,070	61,452	14,769	305,291	243,845
Interest	34,301	57,792	1,238	93,331	72,089
Depreciation	30,391	38,203	1,267	69,861	66,829
Conference and training	34,898	17,931	3,854	56,683	39,581
Miscellaneous	16,270	22,645	2,318	41,233	34,268
Events	20,586	986	18,154	39,726	47,631
Telecommunications and internet	38,319	30	45	38,394	33,196
Supplies	32,793	3,182	401	36,376	59,495
Equipment maintenance and leases	34,950			34,950	34,321
Insurance	3,455	12,927		16,382	14,840
Printing and publications	13,469	1,884	483	15,836	15,285
Advertisement and promotion	8,060	370	6,755	15,185	2,965
Awards and grants given	12,950	396		13,346	1,785
Program expenses	11,644			11,644	21,983
Postage and delivery	3,313	155	659	4,127	5,504
Total 2013 functional expenses	<u>\$ 2,925,780</u>	<u>\$ 610,279</u>	<u>\$ 264,803</u>	<u>\$ 3,800,862</u>	
Total 2012 functional expenses	<u>\$ 2,551,634</u>	<u>\$ 414,909</u>	<u>\$ 214,764</u>		<u>\$ 3,181,307</u>

The accompanying notes are an integral part of these financial statements.

RENAISSANCE ENTREPRENEURSHIP CENTER

STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

With comparative totals for the year ended December 31, 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (332,864)	\$ 448,659
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	69,861	67,171
Reinvested interest	(249)	(317)
Changes in operating assets and liabilities:		
Decrease (increase) decrease in accounts receivable	656,852	(518,300)
Decrease (increase) in prepaid expense	9,953	(92,442)
Increase in accounts payable	35,348	60,467
Increase (decrease) in accrued liabilities	79,227	(6,422)
Donation of property and equipment	(88,546)	-
Net cash provided (used) by operating activities	429,582	(41,184)
Cash flows from investing activities:		
Purchase of property and equipment	(99,680)	(18,269)
Net cash (used) by investing activities	(99,680)	(18,269)
Cash flows from financing activities:		
New borrowings on notes payable	663,233	-
Principal payments on notes payable	(46,415)	(46,553)
Net cash provided (used) by financing activities	616,818	(46,553)
Net increase (decrease) in cash	946,720	(106,006)
Cash and cash equivalents, beginning of year	583,086	689,092
Cash and cash equivalents, end of year	\$ 1,529,806	\$ 583,086
Supplemental disclosures:		
Operating activities reflects interest paid of:	\$ 93,331	\$ 72,089

The accompanying notes are an integral part of these financial statements.

RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

1. Organization

Renaissance Entrepreneurship Center (“Renaissance”) brings the power of entrepreneurship to under-resourced communities. Our mission is to empower and increase the entrepreneurial capacities of socially and economically diverse women and men and thereby strengthen our communities through the creation of new and sustainable businesses, new jobs and the promotion of financial self-sufficiency. Each year, through our four centers in South of Market and Bayview Hunters Point in San Francisco, East Palo Alto on the Peninsula, and San Rafael in Marin County, and our offsite programs in Daly City, Redwood City, Richmond, and San Francisco County Men’s Jail, Renaissance serves over 1,800 women and men who launch and grow over 600 businesses. Our clients reflect the diversity of the Bay Area: 84% are very-low- to moderate-income, 72% are women, and 68% are people of color.

Renaissance’s comprehensive programs and services support entrepreneurs at every stage of business development, from idea feasibility to pre-start, launch, sustainability and growth, while at the same time directly addressing the societal, economic and personal challenges lower income individuals face as they strive to achieve economic independence. Renaissance graduates are successfully establishing new businesses, creating employment for themselves and other residents, establishing economic self-sufficiency and contributing to local economic development.

Renaissance owns and/or manages over 46,000 square feet of commercial real estate that houses thriving small businesses, as well as the training classrooms and offices where its programs are conducted. Renaissance hosts over 50 small businesses and non-profit organizations around the Bay Area. The building owned by Renaissance in the South of Market district of San Francisco is valued on the financial statements at \$1.17 million, but was appraised in 2012 at \$5.8 million.

Our services include:

Training Classes: 3 28-session (12-80 hour) practical, intensive, hands-on training classes for 800 individuals on the introductory, business planning and advanced levels, including *Start and Grow Smart*, *Business Prep*, *Urban FIRE* (Financial Independence Responsible Entrepreneurship), *Advanced Financed and Marketing*, and *Business Planning*; often referred to as the “mini MBA” due to the depth of the curriculum and the networks, clients develop. All classes are taught by Renaissance-trained small business consultants, staff and industry experts using our award-winning curriculum.

Business Consulting: One-on-one customized support provided by small business and industry experts, both at Renaissance and on-site at business locations.

Workshops: Skill-building and topical workshops on topics such as marketing, sales, professional development, business taxes, and social media.

RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Business Incubators: Located at our South of Market and San Rafael sites, our Business Incubators are on-site, supportive entrepreneurial communities that provide low-cost office space, business development services, individual consulting, shared meeting rooms, reception, telephone, internet, and building services. In addition to accelerating the growth of new businesses, the Incubators prevent the isolation many new entrepreneurs face. Our San Rafael facility also provides a commercial kitchen.

Business Assistance Center: Located in our Bayview site, our Business Assistance Center provides low cost office space, technical assistance and business development services for emerging businesses.

Women's Business Center: Renaissance is the US SBA's San Francisco Women's Business Center, offering customized business training for women entrepreneurs, including daytime business planning classes, specialized workshops on the specific needs of women entrepreneurs, industry-specific training in the fashion sector, and our Successful Women in Business Speaker Series.

Industry Training: Industry-specific training for entrepreneurs in the Construction, Production, Distribution and Repair; Fashion; Art; Music and Food sectors. In addition to training classes, the programs introduce clients to industry experts and include round table discussions and individual consultations.

Financing Resource Center: Our Financing Resource Center ("FRC") provides financial education and technical assistance to help clients become better financial managers of their businesses and understand their growth options, and packages loans and helps clients secure capital from local banks, nonprofit loan funds and private sources. The FRC helps clients access, on average, \$1,000,000 per year to launch and grow their businesses.

Graduate Services: Renaissance fosters and maintains long-term relationships with our clients that last beyond their formal training by offering ongoing networking, access to markets, skill building and technical assistance to support strategic business growth. Program graduates constitute 40% of our consultants, instructors, guest speakers and volunteers.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

continued

RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Renaissance are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Renaissance reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions. Renaissance's temporarily restricted net assets at December 31, 2013 totaled \$438,022.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Renaissance to expend all of the income (or other economic benefits) derived from the donated assets. Renaissance has no permanently restricted net assets at December 31, 2013.

Cash and Cash Equivalents

Renaissance has defined cash and cash equivalents as cash in banks and all short-term debt securities purchased with a maturity of three months or less.

Accounts Receivable

Accounts receivable are receivables from governmental agencies. Therefore, no allowance for doubtful accounts has been provided.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

continued

RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Renaissance is required to measure investments at fair value. The specific technique used to measure fair value for this financial statement element is described in Note 4.

Concentration of Credit Risks

Renaissance places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Renaissance has not incurred losses related to these investments.

The primary receivable balance outstanding at December 31, 2013 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Renaissance's receivables consist of earned fees from contract programs granted by governmental agencies.

Approximately 21% of total revenue and support generated by Renaissance during the year ended December 31, 2013 is derived from fees and grants from government agencies.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. 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 recorded at fair value in the period received. For the year ended December 31, 2013, Renaissance recorded in-kind contributions of \$88,546 for donated property and equipment.

continued

RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

Renaissance is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Renaissance in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Renaissance's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Renaissance's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through June 23, 2014 the date which the financial statements were available.

3. Certificates of Deposit

The certificates of deposit totaling \$211,761 bear interest ranging from 0.10% to 2.25% and have maturities of six to twenty-four months, with penalties for early withdrawal.

continued

RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

4. Investment

Investment totaling \$2,697 consists of an interest in a real estate partnership in Arizona donated to Start Up prior to its merger with Renaissance in 2008.

The fair value of the investment has been measured on a non-recurring basis using the best information available (Level 3 inputs). Thus, the fair value is measured at initial contribution amount.

5. Property and Equipment

Property and equipment at December 31, 2013 consist of the following:

Land	\$ 340,000
Building and improvements	1,847,296
Furniture and equipment	<u>231,406</u>
	2,418,702
Less: accumulated depreciation	<u>(941,050)</u>
	<u>\$1,477,652</u>

Depreciation expense for the year ended December 31, 2013 was \$69,861.

The property at 5th Street in San Francisco is valued at \$1.17 million, but was appraised at \$5.8 million in 2012 in advance of refinancing of Renaissance's mortgage.

6. Accrued Liabilities

Accrued liabilities at December 31, 2013 consist of the following:

Accrued vacation	\$ 63,934
Tenant security deposits	39,634
Deferred revenue	35,104
Other accrued liabilities	<u>33,404</u>
	<u>\$172,076</u>

7. Note Payable

Note payable at December 31, 2013 consist of the following:

Note payable to a corporation, monthly payments of \$12,396, interest, at 4.35% due January 2023.	<u>\$2,203,585</u>
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RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

7. Note Payable, continued

Maturities for the note payable are as follows:

<u>Year ended December 31,</u>	
2014	\$ 53,916
2015	56,308
2016	58,807
2017	61,417
2018	64,142
Thereafter	<u>1,908,995</u>
	<u>\$2,203,585</u>

8. Line of Credit

Renaissance has a revolving line of credit with bank, in the amount of \$250,000, at a variable interest rate not lower than 4%, secured by real property due January 2016. There was no outstanding balance on the line of credit as of December 31, 2013.

9. Commitments and Contingencies

Obligations Under Operating Leases

Renaissance leases various facilities and equipments under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended December 31,</u>	
2014	\$ 394,294
2015	384,764
2016	380,004
2017	<u>190,002</u>
	<u>\$1,349,064</u>

Rent expense under operating leases for the year ended December 31, 2013 was \$450,800.

continued

RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

9. Commitments and Contingencies, continued

Contracts

Renaissance's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Renaissance has no provision for the possible disallowance of program costs on its financial statements.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 consist of the following:

Marin Community Foundation - Marin	\$389,992
Wells Fargo – IDA Match	35,104
Wells Fargo – Small Business Renovation Fund	<u>12,926</u>
	<u>\$438,022</u>

For the year ended December 31, 2013, net assets released from program restrictions were \$1,067,306.

The change in temporarily restricted net assets of (\$341,314) is due to spending in 2013 of funds raised and received in 2012 that were intended for 2013.

11. Contributions

Contributions for the year ended December 31, 2013 consist of the following:

Foundations	\$1,327,207
Corporate	714,801
Individual	<u>46,477</u>
	<u>\$2,088,485</u>

The fair value of donated property and equipment received by Renaissance has been measured on a nonrecurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

continued

RENAISSANCE ENTREPRENEURSHIP CENTER

NOTES TO FINANCIAL STATEMENTS

12. Fees and Grants from Government Agencies

Fees and grants from government agencies for the year ended December 31, 2013 consist of the following:

San Francisco CDBG:	
Bayview Programs	\$123,904
South of Market Programs	94,436
SOMA Strong	29,581
San Francisco's Mayor's Office of Housing (HVAC)	32,000
US SBA Women's Business Center	123,776
US SBA PRIME On-line Training	37,288
US SBA Small Business Development Center (passed through from Humboldt State University)	48,088
Daly City CDBG	77,043
Redwood City CDBG	55,601
County of San Mateo CDBG	52,005
U.S. Department of Health and Human Services (Assets for Independence)	14,896
Other	<u>29,978</u>
	<u>\$718,596</u>

13. Employee Benefit Plan

Renaissance has a defined contribution plan for all eligible employees. Employer contributions to the Plan are discretionary. Employer contributions to the Plan for the year ended December 31, 2013 were \$33,319.