

REDF

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2014

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Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
REDF

Report on the Financial Statements

We have audited the accompanying financial statements of REDF (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2014, 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 REDF as of December 31, 2014, 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.

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INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of REDF as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Summarized Comparative Information

We have previously audited REDF's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 28, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2015, on our consideration of REDF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering REDF's internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
November 4, 2015

REDF

STATEMENT OF FINANCIAL POSITION

December 31, 2014

With comparative totals at December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>	<u>2013</u>
Assets				
Cash and cash equivalents	\$ 2,495,924	\$ 522,263	\$ 3,018,187	\$ 4,163,101
Certificates of deposits (Note 2)	2,561,951		2,561,951	2,808,769
Accounts receivable (Note 2)	1,121,533		1,121,533	507,364
Pledges receivable (Note 3)		5,366,880	5,366,880	7,722,629
Prepaid expenses	165,786		165,786	77,339
Deposits	42,099		42,099	42,099
Property and equipment (Note 5)	312,197		312,197	94,008
Total assets	<u>\$ 6,699,490</u>	<u>\$ 5,889,143</u>	<u>\$ 12,588,633</u>	<u>\$ 15,415,309</u>
Liabilities and net assets				
Accounts payable	\$ 361,048	\$ -	\$ 361,048	\$ 470,170
Accrued liabilities	183,699		183,699	124,896
Total liabilities	<u>544,747</u>	<u>-</u>	<u>544,747</u>	<u>595,066</u>
Net assets				
Unrestricted	6,154,743		6,154,743	6,534,273
Temporarily restricted (Note 9)		5,889,143	5,889,143	8,285,970
Total net assets	<u>6,154,743</u>	<u>5,889,143</u>	<u>12,043,886</u>	<u>14,820,243</u>
Total liabilities and net assets	<u>\$ 6,699,490</u>	<u>\$ 5,889,143</u>	<u>\$ 12,588,633</u>	<u>\$ 15,415,309</u>

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

REDF

STATEMENT OF ACTIVITIES
For the year ended December 31, 2014
With comparative totals for the year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>	<u>2013</u>
Revenue and support				
Contributions (Note 7)	\$ 373,086	\$ 2,443,394	\$ 2,816,480	\$ 13,561,175
Government grants	1,866,260		1,866,260	1,250,220
Special events	783,907		783,907	1,227,311
Donated materials (Note 2)	81,647		81,647	-
Investment income	13,396		13,396	6,900
Other income	5,368		5,368	3,780
Net assets released from program restrictions	4,840,221	(4,840,221)	-	-
Total revenue and support	<u>7,963,885</u>	<u>(2,396,827)</u>	<u>5,567,058</u>	<u>16,049,386</u>
Expenses				
Program services	5,213,743		5,213,743	6,312,781
Management and general	2,033,360		2,033,360	1,484,402
Fundraising	1,005,820		1,005,820	658,547
Total expenses	<u>8,252,923</u>	<u>-</u>	<u>8,252,923</u>	<u>8,455,730</u>
Change in net assets before cost settlement	(289,038)	(2,396,827)	(2,685,865)	7,593,656
Cost settlement (Note 10)	(90,492)		(90,492)	-
Change in net assets	(379,530)	(2,396,827)	(2,776,357)	7,593,656
Net assets, beginning of year	<u>6,534,273</u>	<u>8,285,970</u>	<u>14,820,243</u>	<u>7,226,587</u>
Net assets, end of year	<u>\$ 6,154,743</u>	<u>\$ 5,889,143</u>	<u>\$ 12,043,886</u>	<u>\$ 14,820,243</u>

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

REDF

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2014

With comparative totals for the year ended December 31, 2013

	Program	Management		Total Expenses	
	Services	and General		Fundraising	2014
Salaries	\$ 1,493,444	\$ 952,379	\$ 294,155	\$ 2,739,978	\$ 2,305,819
Payroll taxes	116,620	70,774	23,112	210,506	178,581
Employee benefits	182,536	128,905	41,594	353,035	318,870
Total personnel costs	<u>1,792,600</u>	<u>1,152,058</u>	<u>358,861</u>	<u>3,303,519</u>	<u>2,803,270</u>
Program grants	1,999,715			1,999,715	2,345,977
Industry expertise and consultants	804,318	240,422	94,536	1,139,276	1,495,486
Events	99,893	48	415,829	515,770	489,528
Occupancy	149,886	121,874	38,643	310,403	281,213
Travel and meals	169,270	63,174	16,848	249,292	223,509
Technology	84,134	62,577	32,533	179,244	254,010
Miscellaneous expenses	2,445	107,757	368	110,570	17,051
Outreach and promotion	17,563	66,113	25,700	109,376	46,080
Payroll services	34,906	22,834	8,281	66,021	53,074
Recruiting	1,265	61,420		62,685	66,511
Dues and subscriptions	147	52,087	2,106	54,340	24,362
Conference and meetings	19,719	23,098	3,991	46,808	73,962
Accounting, auditing, and legal	276	33,173		33,449	199,667
Office supplies	9,354	11,627	1,941	22,922	26,571
Printing and publication	9,179	2,747	1,783	13,709	21,090
Depreciation	5,440	3,485	1,346	10,271	10,899
Insurance	5,372	3,551	1,276	10,199	9,105
Equipment rental and maintenance	4,579	3,204	1,045	8,828	6,299
Postage and shipping	<u>3,682</u>	<u>2,111</u>	<u>733</u>	<u>6,526</u>	<u>8,066</u>
Total 2014 functional expenses	<u>\$ 5,213,743</u>	<u>\$ 2,033,360</u>	<u>\$ 1,005,820</u>	<u>\$ 8,252,923</u>	
Total 2013 functional expenses	<u>\$ 6,312,781</u>	<u>\$ 1,484,402</u>	<u>\$ 658,547</u>		<u>\$ 8,455,730</u>

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

REDF

STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

With comparative totals for the year ended December 31, 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,776,357)	\$ 7,593,656
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	10,271	10,899
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(614,169)	34,128
Decrease (increase) in pledges receivable	2,355,749	(6,157,578)
(Increase) in prepaid expenses	(88,447)	(51,884)
(Increase) in deposits	-	(4,484)
(Decrease) increase in accounts payable	(109,122)	333,152
Increase in accrued liabilities	58,803	26,584
	<u>(1,163,272)</u>	<u>1,784,473</u>
Net cash (used) provided by operating activities		
	<u>(1,163,272)</u>	<u>1,784,473</u>
Cash flows from investing activities:		
Purchase of property and equipment	(228,460)	(93,330)
Net proceeds from maturing and purchase of certificates of deposits	246,818	(6,299)
	<u>18,358</u>	<u>(99,629)</u>
Net cash provided (used) by investing activities		
	<u>18,358</u>	<u>(99,629)</u>
Net (decrease) increase in cash and cash equivalents	<u>(1,144,914)</u>	<u>1,684,844</u>
Cash and cash equivalents, beginning of year	<u>4,163,101</u>	<u>2,478,257</u>
Cash and cash equivalents, end of year	<u>\$ 3,018,187</u>	<u>\$ 4,163,101</u>

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

REDF

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

REDF began as a project of The Roberts Foundation in 1997 and was incorporated in November 2003 as an independent nonprofit corporation under the laws of the State of California

REDF creates jobs and employment opportunities for people facing the greatest barriers to work. We do it by investing capital and expertise in mission-driven organizations. We help them build their business. Expand their markets. Measure the results. And reinvest in programs to employ more people. We call it social enterprise. It's a revolutionary approach that can transform our communities and our economy. By giving people an opportunity to change their lives with a job, REDF believes we can build an America that works for all of us.

REDF builds social enterprises that employ those who have the toughest time getting a job. Since 1997, we've worked with more than 60 social enterprises that have helped thousands of people in California. The jobs these businesses have created and the people they've employed have transformed lives and generated millions of dollars for local communities. All told, since inception, the social enterprises REDF has worked with have put more than 10,000 people to work, while earning more than \$150 million in revenue creating a sustainable model.

To achieve our goals, we provide funding, business connections, and operational expertise—all while measuring results to ensure the greatest impact. We guide social enterprises every step of the way as they refine their business model, target their consumer market, roll out services and, most importantly, grow and support their workforce. Now we're taking what we've learned and expanding it across America. By creating an ecosystem of social enterprises, funders, businesses, and government agencies, we know we can develop a national movement with the potential to create hundreds of thousands of jobs and fundamentally transform pathways into the workforce.

REDF 2014 Program Accomplishments

2014 marked a pivotal point in REDF's expansion and progress, and has been filled with success, change and growth. REDF has continued to make significant progress against its two overarching organizational goals outlined in its 2011-2015 strategy:

First, our 5 year goal through the end of 2015 was to help 2,500 more people in California, who face the greatest barriers to employment, join the workforce. By the end of 2014, we had almost hit that objective, and anticipated significantly exceeding it in 2015. Second, we had set a 5 year objective of developing a scalable, replicable, sustainable model. We made significant progress on that front publishing research demonstrating the positive, cost effective impact of social enterprise, while continuing to build a national learning community of social enterprises through our growing SE4Jobs community (<http://redf.org/se4jobs/>), and engaging an increasing number of partners and allies in the business community, philanthropy, government, academia and nonprofits nationwide.

1. Organization, continued

At the end of 2014, Mathematica Policy Research filed its final report, commissioned by REDF as part of our Social Innovation Fund grant from the federal government, on the results of our portfolio's work. We released the study a few months later which showed that social enterprise businesses provide a cost effective way to both improve the lives of people who face barriers to work and generate savings for communities and taxpayers. Findings included:

- An average 268 percent monthly wage increase for those employed by these businesses,
- 67 percent of social enterprise employees were still working 6 months later.
- These workers were more likely to be employed than those that were not hired: social enterprise employment led to a 19 percentage point increase in employment one year later, compared to those that were not hired by the social enterprise and only received job readiness and search services.
- Income from government benefits went down from 71 percent to 24 percent.
- Housing stability tripled with employees living in a home or apartment throughout the year. .
- 90 percent received training to build soft, vocational or technical skills, and nearly 80 percent received material work support such as clothing, transportation or housing assistance, making this a comprehensive and holistic approach to employment preparedness.
- In addition to the benefits for the individual, there is a significant return on investment for society:
 - For each dollar spent by social enterprise, taxpayers save \$1.31. When you add in the social enterprise's revenue, and worker's income, the return on investment rises to \$2.23. This means a \$100,000 investment would have a return of \$223,000 for society.

More information can be found at www.redf.org/mjs.

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.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of REDF 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:

REDF

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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. REDF 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. REDF has temporarily restricted net assets of \$5,889,143 at December 31, 2014.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit REDF to expend all of the income (or other economic benefits) derived from the donated assets. REDF has no permanently restricted net assets at December 31, 2014.

Cash and Cash Equivalents

REDF has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Certificates of Deposits

Certificates of deposits with an original maturity of 6 months or more are not considered cash and cash equivalents and reflected separately on Statement of Financial Position as they are deemed longer term investments.

Accounts Receivable

Accounts receivable are receivables from government agencies. No allowance for doubtful accounts has been provided as they are all deemed collectible.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. REDF reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

2. Summary of Significant Accounting Policies, continued**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.

Donated Materials

Contributions of donated materials are measured on a non-recurring basis and recorded at fair value in the period received. For the year ended December 31, 2014, REDF recorded donated materials of \$81,647.

Concentration of Credit Risks

REDF 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 ("FDIC") insurance limit. Seven accounts totaling \$5,448,710 held by REDF at various institutions were in excess of the FDIC insurance limit. REDF has not incurred losses related to these investments.

The primary receivable balance outstanding at December 31, 2014, consists of government contract receivable due from federal granting agency. Concentrations of credit risks with respect to trade receivables are limited, as the majority of REDF's receivables consist of earned contracts from government programs granted by governmental agencies.

The primary pledges receivable balance outstanding at December 31, 2014, consists of pledges from individuals and foundations, which management believes are fully collectible.

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

REDF is required to measure certain assets at fair value. The specific technique used to measure fair value for these financial statement elements is described in the notes below that relate to the element.

REDF

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

REDF 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 REDF in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. REDF'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

Costs of providing REDF's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services based upon on a ratio of time devoted to functional areas. Direct program transactions include direct Social Innovation Fund ("SIF") program transactions.

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 REDF's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 4, 2015, the date which the financial statements were available.

REDF

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at December 31, 2014 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2014. A discount rate of 1.0% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at December 31, 2014 of \$5,366,880 is expected to be collected as follows:

<u>Year ended December 31,</u>	
2015	\$5,227,610
2016	<u>166,500</u>
	5,394,110
Less: unamortized discount on pledges receivable	<u>(27,230)</u>
	<u>\$5,366,880</u>

4. Fair Value Measurements

The table below shows transactions measured at fair value on a non-recurring basis during the year ended December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated materials	\$ -	\$81,647	\$ -	\$ 81,647
Pledged contributions – new	<u>-</u>	<u>-</u>	<u>2,053,394</u>	<u>2,053,394</u>
	<u>\$ -</u>	<u>\$81,647</u>	<u>\$2,053,394</u>	<u>\$2,135,041</u>

The fair value of donated materials has been measured on a non-recurring basis using quoted prices for similar materials in inactive markets (Level 2 inputs).

The fair value of pledged contributions are measured on a non-recurring based on the value provided by the donor at the date of pledge (Level 3 inputs).

5. Property and Equipment

Property and equipment at December 31, 2014 consist of the following:

Website	\$317,420
Computer	29,521
Leasehold improvement	6,231
Furnishing and Equipment	<u>1,007</u>
	354,179
Less: accumulated depreciation	<u>(41,982)</u>
	<u>\$312,197</u>

Depreciation expense for the year ended December 31, 2014 was \$10,271.

continued

REDF

NOTES TO FINANCIAL STATEMENTS

6. Commitments and Contingencies

Obligations under Operating Leases

REDF leases various facilities 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>	
2015	\$282,697
2016	129,048
2017	<u>30,601</u>
	<u>\$442,346</u>

Rent expense under operating leases for the year ended December 31, 2014 was \$285,760.

Contracts

REDF's Social Innovation Fund contract is subject to inspection and audit by the appropriate governmental funding agency. 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, REDF has no provision for the possible disallowance of program costs on its financial statements (see Note 10).

7. Contributions

Contributions for the year ended December 31, 2014 consist of the following:

Foundations/corporations support	\$1,664,644
Board member support	1,004,000
Individual support	96,695
Present value discount on multi-year pledges	<u>51,141</u>
	<u>\$2,816,480</u>

8. Pension Plan and Deferred Compensation

REDF participates in a qualified defined contribution 401(k) tax deferred retirement plan. REDF makes matching contributions to the employee contributions up to 4% of gross pay for each pay. Employees must contribute to trigger this match. Employer contributions under this plan for the year ended December 31, 2014 were \$60,519.

continued

REDF

NOTES TO FINANCIAL STATEMENTS

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2014 consist of the following:

General support	\$4,844,770
Support for Expansion of Social Enterprise Development	994,373
Support for Long Term Strategy for Scaling Social Enterprise	<u>50,000</u>
	<u>\$5,889,143</u>

For the year ended December 31, 2014, net assets released from program restrictions were \$4,840,221.

10. Cost Settlement

REDF was advised by the Corporation for National Community Service (“CNCS”) that it would be disallowing equipment purchases made by REDF and various social enterprises between 2011 and 2013 totaling \$90,492. CNCS further instructed REDF to adjust the disallowed costs in 2014 instead of adjusting the records in respective fiscal years when the equipment were purchased. Total disallowed equipment purchases that were repaid back by REDF for the year ended December 31, 2014 was \$90,492.

SUPPLEMENTAL SCHEDULE

REDF

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2014

<u>Program Name</u>	<u>Contract No.</u>	<u>Federal CFDA No.</u>	<u>Contract Term</u>	<u>Program Award</u>	<u>Federal Program Expenditure</u>
Federal Award					
Corporation for National Community Service ("CNCS"): Directly from CNCS, Social Innovation Fund (a)	10SIHCA001	94.019	08/01/10 - 07/31/15	<u>\$ 3,000,000</u>	<u>\$ 1,866,260</u>
Total Federal Awards				<u><u>\$ 3,000,000</u></u>	<u><u>\$ 1,866,260</u></u>

(a) Audited as a major program

Summary of Significant Accounting Policies:

- 1) Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
- 2) REDF is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

ADDITIONAL INFORMATION



Certified Public Accountants, LLP

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Directors
REDF

We have audited, in accordance with the 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, the financial statements of REDF, which comprise the Statement of Financial Position as of December 31, 2014, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered REDF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of REDF's internal control. Accordingly, we do not express an opinion on the effectiveness of REDF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether REDF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering REDF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
November 4, 2015

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Certified Public Accountants, LLP

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
REDF

Report on Compliance for Each Major Federal Program

We have audited REDF's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of REDF's major federal programs for the year ended December 31, 2014. REDF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of REDF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about REDF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of REDF's compliance.

Opinion on Each Major Federal Program

In our opinion, REDF complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of REDF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered REDF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of REDF's internal control over compliance.

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**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

continued

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harrington Group

San Francisco, California
November 4, 2015

REDF
Schedule of Findings and Questioned Costs
For the year ended December 31, 2014

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Identification of Major Programs:

Corporation for National Community Services:

Social Innovation Fund 94.019

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.