

REDF

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

DECEMBER 31, 2013

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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, 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 REDF 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

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

The financial statements of REDF as of 2012 were audited by other auditors whose report dated September 18, 2013 expressed an unmodified opinion on those financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2014 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
August 28, 2014

REDF

STATEMENT OF FINANCIAL POSITION

December 31, 2013

With comparative totals at December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013</u>	<u>2012</u>
Assets				
Cash and cash equivalents	\$ 3,599,760	\$ 563,341	\$ 4,163,101	\$ 2,478,256
Certificates of deposits (Note 2)	2,808,769		2,808,769	2,802,471
Accounts receivable (Note 2)	507,364		507,364	541,492
Pledges receivable (Note 3)		7,722,629	7,722,629	1,565,051
Prepaid expenses	77,339		77,339	25,455
Deposits	42,099		42,099	37,615
Property and equipment (Note 5)	94,008		94,008	11,577
Total assets	<u>\$ 7,129,339</u>	<u>\$ 8,285,970</u>	<u>\$ 15,415,309</u>	<u>\$ 7,461,917</u>
Liabilities and net assets				
Accounts payable	\$ 470,170	\$ -	\$ 470,170	\$ 137,018
Accrued liabilities	124,896		124,896	98,312
Total liabilities	<u>595,066</u>	<u>-</u>	<u>595,066</u>	<u>235,330</u>
Net assets				
Unrestricted	6,534,273		6,534,273	4,891,820
Temporarily restricted (Note 9)		8,285,970	8,285,970	2,334,767
Total net assets	<u>6,534,273</u>	<u>8,285,970</u>	<u>14,820,243</u>	<u>7,226,587</u>
Total liabilities and net assets	<u>\$ 7,129,339</u>	<u>\$ 8,285,970</u>	<u>\$ 15,415,309</u>	<u>\$ 7,461,917</u>

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

REDF

STATEMENT OF ACTIVITIES

For the year ended December 31, 2013

With comparative totals for the year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013</u>	<u>2012</u>
Revenue and support				
Contributions (Note 7)	\$ 177,597	\$ 13,383,578	\$ 13,561,175	\$ 3,698,721
Government grants	1,250,220		1,250,220	1,897,771
Special events	1,227,311		1,227,311	1,093,756
Investment income	6,900		6,900	11,391
Other income	3,780		3,780	32,226
Net assets released from program restrictions	7,432,375	(7,432,375)	-	
Total revenue and support	<u>10,098,183</u>	<u>5,951,203</u>	<u>16,049,386</u>	<u>6,733,865</u>
Expenses				
Program services	6,312,781		6,312,781	5,635,088
Management and general	1,484,402		1,484,402	941,751
Fundraising	658,547		658,547	746,410
Total expenses	<u>8,455,730</u>	<u>-</u>	<u>8,455,730</u>	<u>7,323,249</u>
Change in net assets	1,642,453	5,951,203	7,593,656	(589,384)
Net assets, beginning of year	<u>4,891,820</u>	<u>2,334,767</u>	<u>7,226,587</u>	<u>7,815,971</u>
Net assets, end of year	<u>\$ 6,534,273</u>	<u>\$ 8,285,970</u>	<u>\$ 14,820,243</u>	<u>\$ 7,226,587</u>

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

REDF

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2013

With comparative totals for the year ended December 31, 2012

	<u>Program</u>	<u>Management</u>		<u>Total Expenses</u>	
	<u>Services</u>	<u>and General</u>		<u>Fundraising</u>	<u>2013</u>
Salaries	\$ 1,465,638	\$ 685,792	\$ 154,389	\$ 2,305,819	\$ 1,783,546
Payroll taxes	114,013	52,226	12,342	178,581	140,237
Employee benefits	172,985	123,203	22,682	318,870	253,881
Total personnel costs	<u>1,752,636</u>	<u>861,221</u>	<u>189,413</u>	<u>2,803,270</u>	<u>2,177,664</u>
Program grants	2,345,977			2,345,977	2,299,688
Industry expertise and consultants	1,396,804	65,334	33,348	1,495,486	1,076,256
Events	134,593	21,302	333,633	489,528	371,312
Occupancy	160,421	95,826	24,966	281,213	263,142
Technology	155,235	64,661	34,114	254,010	404,337
Travel and meals	171,592	37,583	14,334	223,509	160,082
Accounting, auditing and legal	41,794	157,460	413	199,667	168,419
Conference and meetings	29,591	41,856	2,515	73,962	25,970
Recruiting	4,330	62,181		66,511	93,577
Payroll services	30,260	18,089	4,725	53,074	38,877
Outreach and promotion	45,580		500	46,080	136,560
Office supplies	8,648	16,160	1,763	26,571	34,071
Dues and subscriptions	6,323	17,719	320	24,362	24,661
Printing and publication	4,109	3,407	13,574	21,090	9,872
Miscellaneous expenses	5,611	10,777	663	17,051	4,292
Depreciation	5,862	3,954	1,083	10,899	4,749
Insurance	5,436	2,822	847	9,105	9,025
Postage and shipping	4,224	2,110	1,732	8,066	10,341
Equipment rental and maintenance	<u>3,755</u>	<u>1,940</u>	<u>604</u>	<u>6,299</u>	<u>10,354</u>
Total 2013 functional expenses	<u>\$ 6,312,781</u>	<u>\$ 1,484,402</u>	<u>\$ 658,547</u>	<u>\$ 8,455,730</u>	
Total 2012 functional expenses	<u>\$ 5,635,088</u>	<u>\$ 941,751</u>	<u>\$ 746,410</u>		<u>\$ 7,323,249</u>

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

REDF

STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

With comparative totals for the year ended December 31, 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,593,656	\$ (589,384)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,899	4,749
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	34,128	(302,253)
(Increase) decrease in pledges receivable	(6,157,578)	1,253,972
(Increase) in prepaid expenses	(51,884)	(5,811)
(Increase) decrease in deposits	(4,484)	20,621
Increase (decrease) in accounts payable	333,152	(47,280)
Increase in accrued liabilities	26,584	10,557
	<u>1,784,473</u>	<u>345,171</u>
Net cash provided by operating activities		
	<u>1,784,473</u>	<u>345,171</u>
Cash flows from investing activities:		
Purchase of property and equipment	(93,330)	(12,448)
Net proceeds from maturing and purchase of certificates of deposits	(6,299)	(261,854)
	<u>(99,629)</u>	<u>(274,302)</u>
Net cash (used) by investing activities		
	<u>(99,629)</u>	<u>(274,302)</u>
Net increase in cash and cash equivalents	1,684,844	70,869
Cash and cash equivalents, beginning of year	<u>2,478,257</u>	<u>2,407,388</u>
Cash and cash equivalents, end of year	<u>\$ 4,163,101</u>	<u>\$ 2,478,257</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 to create opportunities for homeless and low income persons to move out of poverty.

Work transforms lives, strengthens communities and offers the opportunity to move out of poverty. However, for discrete populations of low-income individuals – homeless people, at-risk youth, those that have been incarcerated or struggle with mental illness and addiction – disproportionately high rates of joblessness approaching 70% for some of these populations exacerbates and protracts already for difficult circumstances. REDF addresses both this opportunity and challenge by creating job opportunities for people who face the greatest barriers to employment.

2011-2015 Strategy

REDF's five-year strategy from 2011 to 2015 aims to: help 2,500 more people who face significant barriers move into the workforce through social enterprise jobs created by non profits in California communities; and create a sustainable, scalable, replicable social enterprise model that can employ tens of thousands more people in California and throughout the United States.

REDF 2013 Program Accomplishments

2013 has marked a pivotal point in REDF's expansion and progress, and has been filled with success, change and growth. Most markedly, REDF has both expanded its portfolio and engaged in key field-building activities, in addition to further developing essential strategic partnerships for bringing REDF's work to scale. REDF has continued to make significant progress against its two overarching organizational goals outlined in its 2011-2015 strategy.

Some highlights of REDF's progress against the first goal include:

- *People employed overall: key metric.* REDF's portfolio of social enterprises employed a total of 595 people in 2013 which brings our overall people employed to 1,475. REDF expects that it will meet or exceed its goal of employing 2,500 people with significant barriers to employment by year-end 2015.
- *The Center for Employment Opportunities (San Diego, San Bernardino, and Oakland, CA)* expanded its program, continued to develop its relationship with the San Diego County Probation Department and started deploying work crews to the City of Escondido. CEO entered into a multi-year contract with the State Transportation agency CalTrans to start up in a new geography with work crews in San Bernardino County.
- *Chrysalis (Los Angeles, Pacoima and Santa Monica, CA)* won a contract with the Pico Business Development District to clean the streets and employ its participants, and received positive feedback from their work on the Business Improvement District contract in the Fashion District in Los Angeles.
- *Coalition for Responsible Community Development (Los Angeles, CA)* continued to optimize its enterprise model to best serve at-risk youth in Central Los Angeles. CRCD also added a dedicated staff person to focus on enterprise employee supports.

REDF

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

- *Community Housing Partnership's (San Francisco, CA)* lobby services business line continued to thrive, generating strong revenue and acquiring two new buildings. Employee salaries, internal promotions and transitions to permanent employment also increased. CHP also began working closely with REDF on developing an approach to employee retention that is based on the concept that retention starts at intake and continues beyond employment at CHP.
- *Community Resource Center (Encinitas, CA)* thrift store operations gained strong momentum, and CRC hired an Assistant Manager with extensive experience with thrift store operations and supporting employees from high-needs populations.
- *Taller San Jose (Santa Ana, CA)* continued to strengthen its transitional employment model, and diversity its construction business customer base.
- *Weingart Center Association's 360° Solutions (Los Angeles, CA)* pest control business began servicing all Skid Row Housing Trust (SRHT) buildings in Los Angeles, and assisted some of SRHT's properties with passing inspections they had previously failed.

In the first quarter of 2013, REDF welcomed *Goodwill of Silicon Valley* to its portfolio. Goodwill of Silicon Valley operates a number of employment social enterprise programs, including e-waste recycling and thrift stores. *Buckelew Programs* and *Urban Strategies* both completed their experience as REDF grantees and joined REDF's alumni portfolio in 2013. Both organizations continue to operate their social enterprises, and Green Streets continues to experience business growth.

Developing an Engaged National Employment Social Enterprise Community

The *Social Enterprise for Jobs (SE4Jobs)* Working Group, a REDF-led national learning community of social enterprises, continued to engage practitioners in sharing lessons and best practices. In the final quarter of 2012, SE4Jobs members expressed a desire to continue meeting quarterly, and invite field experts to present.

REDF held a *Social Enterprise Alliance National Summit* in May 2013, hosting over forty organizations from across the country including Bank of America, Centerplate, the business partner of Juma Ventures, and the Business Development Director of Source America. Highlights of the summit included a discussion on how to communicate the role and value of employment social enterprise employment. REDF also held two key events in Los Angeles to raise the visibility of social enterprise and educate the community about REDF's work. On the heels of REDF's *Early Stage Social Enterprise Academy (ESSEA)*, REDF helped the ESSEA with a "fast pitch" event. The ESSEA event was the conclusion of the ESSEA pilot program, launched in the final quarter of 2012 in partnership with Academies for Social Enterprise, and sponsored by the Citi Foundation. A group of social enterprises in Los Angeles were selected to receive a series of trainings and undertake business planning in a cohort model over a period of several months. Academy participants "pitched" their social enterprise ventures to a group of experienced social and private investors. On May 8th, finalists from the first round of competition pitched their venture again, competing for \$20,000 in cash prizes. The winner of the grand prize was the *Pacific Asian Consortium in Employment (PACE)* and the "audience favorite" award was given to *Downtown Women's Center*.

continued

REDF

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

These awards were announced during REDF's *Southern California Social Enterprise Expo*. The event offered an opportunity for approximately 200 attendees from the business, philanthropic and nonprofit communities to learn about REDF's Northern and Southern California portfolio.

The highly interactive event was very effective in increasing REDF's network and visibility in Southern California.

Developing the Market

Throughout 2013, REDF strengthened its partnership with *Source America (formerly NISH)*, a national, nonprofit agency which acts as an intermediary for federal procurement of goods and services under the AbilityOne program – and provides training to nonprofits that provide employment opportunities to people who are blind or have other significant disabilities. REDF has engaged the global private equity firm *Kohlberg, Kravis & Roberts (KKR)* to explore whether private sector procurement can be similarly facilitated to generate jobs for people who face barriers to employment. Specifically:

- REDF, Source America & KKR created an action plan for 2013 to build upon the momentum and knowledge gained in 2012.
- REDF continued to work with KKR to explore which opportunities within KKR's portfolio are an optimal match for employment social enterprise or permanent employment for post-social-enterprise graduates. Several promising possibilities were identified, and a survey of Source America enterprises launched to match procurement needs with social enterprises in Source America's network.

Building the Field

REDF also continued work on its web-based social enterprise knowledge platform, *renamed to REDFworkshop.org in 2014*. This is intended to serve as a point of entry and highly interactive community for employers of all kinds, social enterprise practitioners, philanthropy and private investors and government that seeks to tap into REDF's expertise as a field leader. It will be of value to anyone interested in supporting social enterprise, including businesses looking to integrate social enterprise in their existing business or procurement models. REDF expects to launch REDFworkshop.org in November 2014.

In the final quarter of 2013, REDF published an interim report of its *Mathematica Jobs Study (MJS)*, which REDF launched in 2012 in partnership with Mathematica Policy Research. The primary goal of the MJS is to evaluate the employment social enterprise model and its social outcomes. Over 500 social enterprise employees within REDF's portfolio groups participated in the study, and the final report will be published in December 2014 for dissemination through 2015 and beyond. The interim report provided REDF with valuable early insights into the efficacy of the social enterprise approach to job creation for people with barriers to employment, demonstrating the positive effect of social enterprise employment on employee's lives, and highlighting many of the benefits to society. While 69% of those getting jobs in REDF's social enterprise portfolio had been convicted of a crime, only 4% were arrested during the period that they had a social enterprise jobs. More information can be found at www.redf.org/mjs.

continued

REDF

NOTES TO FINANCIAL STATEMENTS

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:

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 \$8,285,970 at December 31, 2013.

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, 2013.

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.

REDF

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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 \$6,985,070 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, 2013, 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, 2013, consists of pledges from individuals and foundations, which management believes are fully collectible.

Approximately 84% of total revenue and support generated by REDF as of December 31, 2013 is funded by contributions.

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.

REDF

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

REDF is required to measure certain assets at fair value. The specific techniques used to measure fair value are described in the notes below that relate to the element.

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.

continued

REDF

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2012, from which the summarized information was derived.

Reclassification

Certain amounts from the December 31, 2012 financial statements have been reclassified to conform to the December 31, 2013 presentation.

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, 2013 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2013. 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, 2013 of \$7,722,629 is expected to be collected as follows:

<u>Year ended December 31,</u>	
2014	\$3,610,000
2015	<u>4,191,000</u>
	7,801,000
Less: unamortized discount on pledges receivable	<u>(78,371)</u>
	<u>\$7,722,629</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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions – new	<u>\$ -</u>	<u>\$ -</u>	<u>\$13,100,000</u>	<u>\$13,100,000</u>

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).

continued

REDF

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

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

Buildings and improvements	\$ 74,201
Leasehold improvement	6,231
Computer	29,521
Furnishing and Equipments	<u>1,007</u>
	110,960
Less: accumulated depreciation	<u>(16,952)</u>
	<u>\$ 94,008</u>

Depreciation expense for the year ended December 31, 2013 was \$10,899.

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>	
2014	\$265,358
2015	273,451
2016	126,702
2017	<u>30,599</u>
	<u>\$696,110</u>

Rent expense under operating leases for the year ended December 31, 2013 was \$249,036.

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).

REDF

NOTES TO FINANCIAL STATEMENTS

7. Contributions

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

Board member support	\$13,000,000
Foundations/corporations support	531,123
Individual support	101,474
Present value discount on multi-year pledges	<u>(71,422)</u>
	<u>\$13,561,175</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, 2013 were \$48,979.

9. Temporarily Restricted Net Assets

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

General support	\$7,273,873
Support for Expansion of Social Enterprise Development	962,097
Support for Long Term Strategy for Scaling Social Enterprise	<u>50,000</u>
	<u>\$8,285,970</u>

For the year ended December 31, 2013, net assets released from program restrictions were \$7,432,375.

10. Subsequent Events

Subsequent to year-end, 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. No adjustment related to this transaction has been made to the financial statements for the year ended December 31, 2013.

Management has evaluated subsequent events through August 28, 2014, the date which the financial statements were available.

SUPPLEMENTAL SCHEDULE

REDF

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2013

<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>\$ 1,250,220</u>
Total Federal Awards				<u><u>\$ 3,000,000</u></u>	<u><u>\$ 1,250,220</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, 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, and have issued our report thereon dated August 28, 2014.

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
August 28, 2014

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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**

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, 2013. 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, 2013.

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.

**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

August 28, 2014

REDF
Schedule of Findings and Questioned Costs
For the year ended December 31, 2013

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 deficiency(ies) identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weaknesses? No

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.