

REDF

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

DECEMBER 31, 2015

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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, 2015, 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 auditor considers 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, 2015, 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 September 9, 2016, 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
September 9, 2016

REDF

STATEMENT OF FINANCIAL POSITION

December 31, 2015

With comparative totals at December 31, 2014

| | Unrestricted | Temporarily Restricted | 2015 | 2014 |
|--|---------------------|-----------------------------------|----------------------|----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,582,925 | \$ 412,247 | \$ 1,995,172 | \$ 3,018,187 |
| Certificates of deposits (Note 2) | 4,163,497 | | 4,163,497 | 2,561,951 |
| Accounts receivable (Note 2) | 311,978 | | 311,978 | 1,563,143 |
| Pledges receivable (Note 3) | 216,335 | 20,975,636 | 21,191,971 | 4,925,270 |
| Prepaid expenses | 37,383 | | 37,383 | 165,786 |
| Deposits | 42,099 | | 42,099 | 42,099 |
| Property and equipment (Note 5) | 455,741 | | 455,741 | 312,197 |
| TOTAL ASSETS | \$ 6,809,958 | \$ 21,387,883 | \$ 28,197,841 | \$ 12,588,633 |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 361,048 |
| Accrued liabilities | 537,963 | | 537,963 | 183,699 |
| TOTAL LIABILITIES | 537,963 | - | 537,963 | 544,747 |
| NET ASSETS | | | | |
| Unrestricted | 4,271,995 | | 4,271,995 | 6,154,743 |
| Unrestricted - Board Designated (Note 2) | 2,000,000 | | 2,000,000 | - |
| Temporarily restricted (Note 9) | | 21,387,883 | 21,387,883 | 5,889,143 |
| TOTAL NET ASSETS | 6,271,995 | 21,387,883 | 27,659,878 | 12,043,886 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 6,809,958 | \$ 21,387,883 | \$ 28,197,841 | \$ 12,588,633 |

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

REDF

STATEMENT OF ACTIVITIES

For the year ended December 31, 2015

With comparative totals for the year ended December 31, 2014

| | Unrestricted | Temporarily Restricted | 2015 | 2014 |
|--|---------------------|-----------------------------------|---------------------|----------------------|
| REVENUE AND SUPPORT | | | | |
| Contributions (Note 7) | \$ 1,528,080 | \$ 20,418,866 | \$21,946,946 | \$ 2,816,480 |
| Government grants | 1,594,139 | | 1,594,139 | 1,866,260 |
| Special events | 800,836 | | 800,836 | 783,907 |
| Other income | 4,571 | | 4,571 | 5,368 |
| Investment income | 2,208 | | 2,208 | 13,396 |
| Donated materials (Note 2) | 1,500 | | 1,500 | 81,647 |
| Net assets released from purpose restrictions | 4,920,126 | (4,920,126) | - | - |
| TOTAL REVENUE AND SUPPORT | 8,851,460 | 15,498,740 | 24,350,200 | 5,567,058 |
| EXPENSES | | | | |
| Program services | 5,700,304 | | 5,700,304 | 5,213,743 |
| Management and general | 1,899,924 | | 1,899,924 | 2,033,360 |
| Fundraising | 1,133,980 | | 1,133,980 | 1,005,820 |
| TOTAL EXPENSES | 8,734,208 | - | 8,734,208 | 8,252,923 |
| CHANGE IN NET ASSETS BEFORE COST SETTLEMENT | 117,252 | 15,498,740 | 15,615,992 | (2,685,865) |
| Cost settlement | | | - | (90,492) |
| CHANGE IN NET ASSETS | 117,252 | 15,498,740 | 15,615,992 | (2,776,357) |
| NET ASSETS, BEGINNING OF YEAR | 6,154,743 | 5,889,143 | 12,043,886 | 14,820,243 |
| NET ASSETS, END OF YEAR | \$ 6,271,995 | \$ 21,387,883 | \$27,659,878 | \$ 12,043,886 |

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

REDF

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2015

With comparative totals for the year ended December 31, 2014

| | <u>Program</u> | <u>Management</u> | | <u>Total Expenses</u> | |
|---------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>Services</u> | <u>and General</u> | | <u>Fundraising</u> | <u>2015</u> |
| Salaries | \$ 1,806,839 | \$ 984,752 | \$ 231,778 | \$ 3,023,369 | \$ 2,739,978 |
| Payroll taxes | 172,137 | 104,515 | 23,926 | 300,578 | 256,466 |
| Employee benefits | 201,278 | 186,540 | 33,379 | 421,197 | 307,075 |
| Total personnel costs | <u>2,180,254</u> | <u>1,275,807</u> | <u>289,083</u> | <u>3,745,144</u> | <u>3,303,519</u> |
| Program grants | 1,880,820 | | | 1,880,820 | 1,999,715 |
| Industry expertise and consultants | 720,764 | 32,332 | 90,252 | 843,348 | 1,139,276 |
| Events | 14,503 | 46 | 658,747 | 673,296 | 515,770 |
| Occupancy | 194,924 | 143,919 | 37,202 | 376,045 | 310,878 |
| Technology | 126,811 | 109,474 | 26,045 | 262,330 | 179,244 |
| Travel and meals | 186,310 | 48,923 | 4,550 | 239,783 | 249,292 |
| Outreach | 218,166 | 1,615 | 12,991 | 232,772 | 109,376 |
| Training and professional development | 2,560 | 101,167 | 118 | 103,845 | 97,729 |
| Payroll services | 36,312 | 28,801 | 7,345 | 72,458 | 66,021 |
| Depreciation | 66,494 | 542 | 1,247 | 68,283 | 10,271 |
| Conference and meetings | 43,503 | 11,204 | 533 | 55,240 | 46,808 |
| Office supplies | 14,471 | 20,055 | 3,164 | 37,690 | 22,922 |
| Accounting, auditing, and legal | | 33,189 | | 33,189 | 33,449 |
| Dues and subscriptions | 953 | 25,767 | 200 | 26,920 | 54,340 |
| Recruiting | 174 | 23,953 | | 24,127 | 62,685 |
| Other | | 20,705 | | 20,705 | 12,366 |
| Insurance | 1,753 | 12,378 | 511 | 14,642 | 10,199 |
| Equipment rental and maintenance | 5,137 | 4,326 | 1,086 | 10,549 | 8,828 |
| Printing and publication | 1,988 | 4,755 | 303 | 7,046 | 13,709 |
| Postage and shipping | 4,407 | 966 | 603 | 5,976 | 6,526 |
| TOTAL 2015 FUNCTIONAL EXPENSES | <u>\$ 5,700,304</u> | <u>\$ 1,899,924</u> | <u>\$ 1,133,980</u> | <u>\$ 8,734,208</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> |

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

REDF

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

With comparative totals for the year ended December 31, 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 15,615,992 | \$ (2,776,357) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 68,283 | 10,271 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 1,251,165 | (614,169) |
| Pledges receivable | (16,266,701) | 2,355,749 |
| Prepaid expenses | 128,403 | (88,447) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (361,048) | (109,122) |
| Accrued liabilities | 354,264 | 58,803 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>790,358</u> | <u>(1,163,272)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (211,827) | (228,460) |
| Net proceeds from maturing and purchase of certificates of deposits | <u>(1,601,546)</u> | <u>246,818</u> |
| NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES | <u>(1,813,373)</u> | <u>18,358</u> |
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>(1,023,015)</u> | <u>(1,144,914)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>3,018,187</u> | <u>4,163,101</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,995,172</u> | <u>\$ 3,018,187</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 is the only venture philanthropy in the U.S. that invests exclusively in the growth of social enterprises focused on employment. Since 1997, REDF has provided seed and growth capital and [specialized advisory services](#) to over 60 social enterprises in California, which have earned and reinvested in their businesses more than \$163 million in revenue and employed over 11,000 people, helping spending for government programs go further while improving lives and communities.

Now REDF is expanding the impact of its work [nationally](#), building the field of social enterprise, deepening the evidence base to demonstrate the return on investment, and partnering with some of the most effective and innovative social enterprises around the country to strengthen their business, scale their impact, and help tens of thousands more people transform their lives and futures.

Social enterprises focused on employment are double-bottom line businesses that sell quality goods and services, and reinvest their revenue so they can hire and support more people who otherwise would be excluded from the job market. Employees of social enterprises are overcoming formidable challenges—like homelessness, incarceration, mental health and substance use struggles, and limited education—and are ready and willing to contribute, they just need that first step back into the workforce, and the support, to help them succeed.

REDF 2015 Program Accomplishments and 2016-2020 Strategy

2015 marked a pivotal point in REDF's expansion and progress. It was during 2015 that REDF completed the last year of its 2011-2015 strategy by supporting its social enterprise portfolio in California to significantly exceed its 5 year goal to help 2,500 more people in California, who face the greatest barriers to employment, join the workforce. REDF also expanded its' strategic grant-making program, providing smaller, one-time grants to social enterprises with specific funding needs that would trigger business growth or program improvements. It was also during this year that REDF developed its strategies to scale the impact of its work nationally by growing sustainable models of social enterprise across the country, and developing local ecosystems, policies, and partnerships to help the enterprises, and those they employ, achieve success. This led REDF's Board of Directors to adopt a new 2016-2020 Strategic Plan.

1. **Organization**, continued

The foundation for REDF's future work (2016-2020) is reinforced by the lessons we've learned to date through our work with social enterprises, and an evaluation of our portfolio completed by Mathematica Policy Research. The Mathematica Jobs Study (MJS), a rigorous, independent, multi-year evaluation of REDF's social enterprise portfolio revealed that one year after hire, more than half were still working – those who had gotten a job in social enterprise were 19 percentage points more likely to be employed than those who had received traditional workforce services. Their average monthly income increased 268 percent, housing stability tripled, and income from government decreased to 24 percent from 71 percent. While results for social enterprise workers were positive, findings also showed that the costs of improved self-sufficiency for the worker (e.g. paying the rent) could outpace their income gains and drop in government benefits. Often, just a small increase in household earnings can trigger loss of eligibility for a benefit.

These learnings led REDF and its partners to take action on two fronts. First, to forge a wider and deeper set of relationships with competitive employers that have the kinds of human resources policies that benefit frontline workers with training and advancement opportunities, and reasonable wages, benefits, and working conditions. And second, to advocate for public policies that provide work incentives.

Going forward, REDF will continue to build on its strong history of outcome measurement. REDF and its portfolio social enterprises share a common organizational culture that thrives on the use of real time data to improve programming and participant outcomes.

REDF's 2016-2020 plan is to build a thriving social enterprise ecosystem that includes businesses, social enterprises, philanthropy, and government working together to champion and support SEs to transform lives and create more economic opportunity leading to the employment of 50,000 people across the U.S. REDF has organized its activities and operations to ensure the achievement of this objectives.

REDF's vision and strategy is to expand the field of social enterprise in the coming years to prepare people to work, to retain jobs, and advance up the career ladder. Our priority is inclusion of those men and women who are otherwise unlikely to be employed because of their challenging backgrounds and histories.

Overall, our new strategy focuses on achieving results in three core areas:

- Social enterprises. Provide the **right kinds of capital** at the **right stage**, and the **advice** needed to grow social enterprises and improve results for the people employed
- Regional ecosystems. Build **an infrastructure** and **evidence base** that **supports** the **growth** and **success** of social enterprises; engage business, government, philanthropy, and community organizations to build ecosystems with **practices** and **champions** supportive of social enterprise and develop the evidence base. Develop **partnerships** to support social enterprise **growth** and **success**. Advise employers on **hiring, retention, promotion** of target population

REDF

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

- National field building. Develop the strength and sophistication of a national network and field of practice. Build an active national network to learn, and fuel growth of social enterprise as visible, credible alternative to status quo, while providing a communications platform and tools to help the field leverage practice-based knowledge, and evaluation to promote social enterprise and inform implementation. Develop social enterprise leaders and advocate for policies supportive of social enterprise and employment of people who are overcoming barriers.

While REDF will make important contributions, over time this approach will catalyze a systemic impact that goes beyond the initiatives we touch directly.

REDF will pursue the following goals over the next five years:

- 50,000 people who are overcoming significant barriers are employed by the end of 2020
 - 25,000 people employed by social enterprises and other businesses that REDF directly supports
 - 25,000 people employed as a result of REDF's broader efforts to build the field and create policy change
- Incomes and job retention increase above the levels achieved by our portfolio to date.
- Increasing numbers of employer, government agencies, nonprofits, foundations, other donors, investors and educational institutions take action to include REDF's beneficiaries in the workforce and support their advancement.
- Policies that 'make work pay' and foster increased employment of REDF's beneficiaries are in place and widely implemented.

As REDF prepares to implement its new business plan, two 2015 developments have coalesced to prepare REDF for 2016-2020.

Los Angeles Regional Initiative for SE (LA:RISE)

The LA:RISE collaborative that REDF leads in Los Angeles became the prototype for an integrated, holistic ecosystem that addresses the full breadth of an individual's needs. Our findings from our own portfolio organizations have shown that people who face multiple barriers to employment require a breadth of supports and coordinated action from a coalition of community partners. In response to this, through the LA:RISE initiative, REDF designed, and is now implementing, a Social Enterprise (SE) ecosystem that breaks down silos between government, employers, supportive service providers, and SEs to create a pathway to sustainable employment supplemented by life-stabilizing wraparound supports (health, transportation, childcare, etc.) for people who face the greatest barriers to employment.

REDF's role in LA:RISE is to coordinate and integrate the collective efforts of 14 core partner organizations.

1. **Organization**, continued

These partners address the breadth of participants' needs as follows:

- **Transitional SE Jobs:** create time-bound, subsidized employment opportunities in a supportive work environment. Provide paid work experience and personal supports such as case management and job readiness assessments to ensure workers are job-ready. (Chrysalis, Homeboy Industries, and LA Conservation Corps)
- **Next-stage Jobs:** Non-profit or for-profit entity providing permanent employment to job-ready individuals with non-traditional backgrounds, creating a supportive and inclusive work culture where they can thrive. They provide unsubsidized employment opportunities to transitional employment graduates who demonstrate sufficient gains in skills. (Whole Foods, Tender Greens, Isidore Electronics Recycling)
- **Training Services:** The City of LA's Workforce Development System is the project coordinating partner for the project, co-enrolling individuals while they are at the SE, providing job placement and follow-up services. They provide access to career and training services, such as vocational workshops, financial and computer literacy, and soft skills development, including resume building, interviewing techniques, and conflict resolution.
- **Human Services Providers:** Help participants stabilize their lives and retain jobs through case management; goal setting; healthcare, childcare, and transportation assistance; and financial literacy training. They continue to work with individuals in next-stage jobs to improve retention. (Anti Recidivism Coalition, LIFT-LA).

To advance this integrated, holistic approach, REDF forges new cross-sector partnerships, coordinates collective action, and builds operational efficiencies among public, private, non-profit, and educational partners. REDF's role in LA:RISE includes implementation of the following key activities:

- Engage a network of LA-based SEs to standardize metrics, measure results, and report on outcomes;
- Work with funders to channel more funding to and procurement from LA:RISE SEs;
- Provide hands-on business and technical assistance to a portfolio of Los Angeles-based SEs;
- Identify, document, and broadly share innovative and effective employee supports that measurably increase worker retention and transition to sustainable, next-stage employment;
- Identify companies to approach as next-stage employers.

REDF

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Corporation for National Community Service

In 2015, the Corporation for National and Community Service renewed and upgraded its previous \$7.5 million commitment to REDF with a new five-year Social Innovation Fund (SIF) grant thus far awarding REDF a 2 year budget of \$7.0 million. This breakthrough has catalyzed additional funding from REDF's Board of Directors, other individual donors, and foundations. Combined with the SE ecosystem model pioneered under LA:RISE, REDF's most significant body of work for the next several years will be to provide grants, technical assistance, and ecosystem building support to a new national portfolio of 22 SEs in 9 regions across 8 states. REDF will also be providing smaller grants and less intensive advisory services to SEs located in those geographies, and other states as well as implementing a SE 'accelerator' and leadership development program. In at least 4-6 of the new regions where REDF supports its portfolio organizations, REDF will adapt an ecosystem framework to the local context and engage business, government and philanthropic partners in this work. This will expand REDF's programmatic reach, reputation as a SE leader, and access to partners.

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.

Unrestricted – Board Designated. These are comprised of resources which the Board of Directors have designated for specific purposes.

2. Summary of Significant Accounting Policies, continued

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 \$21,387,883 at December 31, 2015.

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, 2015.

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 six 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, 2015, REDF recorded donated materials of \$1,500.

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. Six accounts totaling \$5,857,294 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, 2015, 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, 2015, 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 this financial statement element 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, 2014, from which the summarized information was derived.

Reclassification

Certain amounts from the December 31, 2014 financial statements have been reclassified to conform to the December 31, 2015 presentation.

REDF

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events through September 9, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the 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, 2015 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2015. 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, 2015 of \$21,191,971 is expected to be collected as follows:

Year ended December 31,

| | |
|--|---------------------|
| 2016 | \$ 6,535,335 |
| 2017 | 4,500,000 |
| 2018 | 4,000,000 |
| 2019 | 3,500,000 |
| 2020 | <u>3,000,000</u> |
| | 21,535,335 |
| Less: unamortized discount on pledges receivable | <u>(343,364)</u> |
| | <u>\$21,191,971</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, 2015:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------|-------------------|-------------------|---------------------|---------------------|
| Donated materials | \$ - | \$1,500 | \$ - | \$ 1,500 |
| Pledged contributions – new | <u> </u> | <u> </u> | <u>21,183,335</u> | <u>21,183,335</u> |
| | <u>\$ -</u> | <u>\$1,500</u> | <u>\$21,183,335</u> | <u>\$21,184,835</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).

continued

REDF

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at December 31, 2015 consist of the following:

| | |
|--------------------------------|-------------------|
| Website | \$ 352,784 |
| Computer | 122,051 |
| Software | 77,900 |
| Leasehold improvement | 12,264 |
| Furnishing and Equipment | <u>1,007</u> |
| | 566,006 |
| Less: accumulated depreciation | <u>(110,265)</u> |
| | <u>\$ 455,741</u> |

Depreciation expense for the year ended December 31, 2015 was \$68,283.

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> | |
|--------------------------------|--------------------|
| 2016 | \$ 478,167 |
| 2017 | 421,742 |
| 2018 | 401,158 |
| 2019 | 413,193 |
| 2020 | <u>283,381</u> |
| | <u>\$1,997,641</u> |

Rent expense under operating leases for the year ended December 31, 2015 was \$334,825.

Contracts

REDF's SIF 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.

REDF

NOTES TO FINANCIAL STATEMENTS

7. Contributions

Contributions for the year ended December 31, 2015 consist of the following:

| | |
|--|---------------------|
| Board member support | \$21,408,848 |
| Foundations/corporations support | 751,755 |
| Individual support | 102,477 |
| Present value discount on multi-year pledges | <u>(316,134)</u> |
| | <u>\$21,946,946</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, 2015 were \$63,276.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 consist of the following:

| | |
|--|---------------------|
| General support | \$20,659,636 |
| Support for Social Enterprises, Regional Ecosystems and National Field Building | <u>728,247</u> |
| | <u>\$21,387,883</u> |

For the year ended December 31, 2015, net assets released from purpose restrictions were \$4,920,126.

SUPPLEMENTAL SCHEDULE

REDF

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2015

| <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 | 08/01/14 - 07/31/16 | \$ 1,500,000 | \$ 1,365,026 |
| Total CNCS | | | | <u>1,500,000</u> | <u>1,365,026</u> |
| Department of Labor ("DOL"): | | | | | |
| Pass through City of Los Angeles | | | | | |
| Workforce Innovation Fund - Los Angeles Regional Initiative for Social Enterprise (LA: RISE) - Phase I | C-125954 | 17.283 | 10/01/14 - 09/30/15 | 161,360 | 161,360 |
| Workforce Innovation Fund - LA: RISE - Program Administration & Technical Assistance | C-127534 | 17.283 | 10/01/15 - 10/31/18 | <u>665,500</u> | <u>67,753</u> |
| Total DOL | | | | <u>826,860</u> | <u>229,113</u> |
| Total Federal Awards | | | | <u><u>\$ 2,326,860</u></u> | <u><u>\$ 1,594,139</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

**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, 2015, 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 September 9, 2016.

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*.

**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***
continued

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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
September 9, 2016

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

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 Compliance Supplement* that could have a direct and material effect on each of REDF's major federal programs for the year ended December 31, 2015. REDF's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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 types of compliance 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, 2015.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**
continued

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 requirements 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 the Uniform Guidance, 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Harrington Group

San Francisco, California
September 9, 2016

REDF
Schedule of Findings and Questioned Costs
For the year ended December 31, 2015

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 200.516 Audit Findings of the Uniform Guidance? No

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

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 the Uniform Guidance.

Section IV – Summary Schedule of Prior Year Findings

None.