

***REDF***

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*FINANCIAL STATEMENTS*

*For The Years Ended December 31, 2008 and 2007*

*with*

*INDEPENDENT AUDITOR'S REPORT*

*REDF*  
*FINANCIAL STATEMENTS*  
*DECEMBER 31, 2008 and 2007*

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### Independent Auditor's Report

To the Board of Directors  
REDF  
San Francisco, California

I have audited the accompanying statements of financial position of REDF as of December 31, 2008 and 2007 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with U. S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of REDF as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

*Carl M. Arntzen, CPA*

Carl M. Arntzen, CPA  
April 7, 2009

**REDF**  
**Statements of Financial Position**  
**December 31, 2008 and 2007**

	2008	2007
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$719,124	\$4,248,631
Certificates of deposit with original maturities of 9 to 12 months	3,684,954	
Grants receivable within one year	1,419,684	1,971,758
Other receivables	10,310	18,725
Prepaid expenses	21,248	6,966
<b>Total current assets</b>	<b>5,855,320</b>	<b>6,246,080</b>
Grants receivable after one year, net of discount	291,831	1,243,533
Equipment and furniture, net of accumulated depreciation	1,725	9,635
Deposits	20,621	20,621
<b>TOTAL ASSETS</b>	<b>\$6,169,497</b>	<b>\$7,519,869</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$36,576	\$33,279
Accrued compensation	26,545	19,759
<b>TOTAL LIABILITIES</b>	<b>63,121</b>	<b>53,038</b>
<b>NET ASSETS</b>		
Unrestricted	4,142,961	4,311,899
Temporarily restricted	1,963,415	3,154,932
<b>TOTAL NET ASSETS</b>	<b>6,106,376</b>	<b>7,466,831</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$6,169,497</b>	<b>\$7,519,869</b>

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

**REDF**  
**Statements of Activities**  
**For the Years Ended December 31, 2008 and 2007**

	2008			2007		
	2008 Unrestricted	Temporarily Restricted	2008 Total	2007 Unrestricted	Temporarily Restricted	2007 Total
<b>SUPPORT AND REVENUE</b>						
Grants and contributions	\$594,260	\$745,099	\$1,339,359	\$1,711,674	\$1,219,288	\$2,930,962
Other income	101,285		101,285	75,177		75,177
Net assets released from restriction	1,936,616	(1,936,616)		1,247,438	(1,247,438)	
<b>TOTAL SUPPORT AND REVENUE</b>	<b>2,632,161</b>	<b>(1,191,517)</b>	<b>1,440,644</b>	<b>3,034,289</b>	<b>(28,150)</b>	<b>3,006,139</b>
<b>EXPENSES</b>						
Program expenses	2,145,872		2,145,872	1,668,759		1,668,759
Management and general	358,451		358,451	174,064		174,064
Fundraising	296,776		296,776	311,776		311,776
<b>TOTAL EXPENSES</b>	<b>2,801,099</b>		<b>2,801,099</b>	<b>2,154,599</b>		<b>2,154,599</b>
<b>CHANGE IN NET ASSETS</b>	<b>(168,938)</b>	<b>(1,191,517)</b>	<b>(1,360,455)</b>	<b>879,690</b>	<b>(28,150)</b>	<b>851,540</b>
<b>NET ASSETS-BEGINNING</b>	<b>4,311,899</b>	<b>3,154,932</b>	<b>7,466,831</b>	<b>3,432,209</b>	<b>3,183,082</b>	<b>6,615,291</b>
<b>NET ASSETS-ENDING</b>	<b>\$4,142,961</b>	<b>\$1,963,415</b>	<b>\$6,106,376</b>	<b>\$4,311,899</b>	<b>\$3,154,932</b>	<b>\$7,466,831</b>

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

**REDF**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2008**

	2008 Program Costs	2008 Management & General	2008 Fund Raising	2008 Total	2007 Total (Page 5)
Program grants					
Enterprise capacity building grants	\$535,000			\$535,000	\$489,700
Strategic business assistance grants	31,750			31,750	23,100
MBA intern compensation grants	32,500			32,500	183,000
Innovation grants	64,000			64,000	10,000
Social outcome measurement grants	20,000			20,000	
Salaries	644,054	\$206,771	\$159,683	1,010,508	761,356
Pension plan contributions	13,823	4,438	3,427	21,688	9,705
Other employee benefits	56,712	18,207	14,061	88,980	66,377
Payroll taxes	47,660	15,301	11,816	74,777	58,175
Measurement of social outcomes	163,512			163,512	146,054
Marketing	20,300	6,517	5,033	31,850	36,275
Occupancy	86,883	27,893	21,541	136,317	87,725
Strategic business assistance services	37,761			37,761	22,959
Field advancement	212,533			212,533	43,351
Technology	37,196	11,942	15,089	64,227	33,274
MBA intern and fellow services	59,251			59,251	20,525
Payroll services	15,611	5,012	3,871	24,494	20,905
Travel and meals	9,069	2,911	2,248	14,228	13,490
Insurance	5,176	1,662	1,283	8,121	7,023
Office supplies	6,469	2,077	1,604	10,150	5,511
Conferences and meetings	5,041	1,618	1,250	7,909	10,606
Postage and shipping	2,842	912	705	4,459	4,009
Printing and publications	1,876	602	465	2,943	4,937
Equipment rental and maintenance	2,435	782	604	3,821	3,143
Advisory and other consulting services	25,689	6,334	16,558	48,581	12,985
Dues, subscriptions and publications	5,172	1,660	1,280	8,112	3,221
Accounting services		28,015		28,015	20,030
Legal fees		2,046		2,046	3,200
Professional fundraising					32,844
Miscellaneous	3,557	1,146	2,829	7,532	3,137
Recruiting		4,695		4,695	1,391
Sponsorships and events			33,429	33,429	15,247
Depreciation		7,910		7,910	1,344
<b>TOTAL EXPENSES</b>	<b>\$2,145,872</b>	<b>\$358,451</b>	<b>\$296,776</b>	<b>\$2,801,099</b>	<b>\$2,154,599</b>

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

**REDF**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2007**

	2007 Program Costs	2007 Management & General	2007 Fund Raising	2007 Total
Program grants				
Enterprise capacity building grants	\$489,700			\$489,700
Strategic business assistance grants	23,100			23,100
MBA intern compensation grants	183,000			183,000
Innovation grants	10,000			10,000
Pre-portfolio grants				
Salaries	487,268	\$98,976	\$175,112	761,356
Pension plan contributions	6,211	1,262	2,232	9,705
Other employee benefits	42,481	8,629	15,267	66,377
Payroll taxes	37,232	7,563	13,380	58,175
Measurement of social outcomes	146,054			146,054
Marketing	23,216	4,716	8,343	36,275
Professional fundraising			32,844	32,844
Occupancy	47,482	9,645	17,063	74,190
Strategic business assistance services	22,959			22,959
Field advancement	43,351			43,351
Technology	21,295	4,326	7,653	33,274
MBA intern and fellow services	20,525			20,525
Payroll services	13,379	2,718	4,808	20,905
Accounting services	12,819	2,604	4,607	20,030
Telephone	8,662	1,760	3,113	13,535
Travel	8,633	1,754	3,103	13,490
Insurance	4,495	913	1,615	7,023
Supplies	3,527	716	1,268	5,511
Conferences and meetings	6,788	1,379	2,439	10,606
Legal fees	2,122	389	689	3,200
Postage and shipping	2,566	521	922	4,009
Printing and publications	3,159	642	1,136	4,937
Equipment rental and maintenance	2,012	408	723	3,143
Advisory and other consulting services	8,436	1,517	3,032	12,985
Fundraising events			15,247	15,247
Miscellaneous	3,228	654	2,476	6,358
Recruiting	764	352	275	1,391
Depreciation		1,344		1,344
<b>TOTAL EXPENSES</b>	<b>\$1,684,464</b>	<b>\$152,788</b>	<b>\$317,347</b>	<b>\$2,154,599</b>

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

**REDF**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2008 and 2007**

	2008	2007
Cash flows from operating activities:		
Change in net assets	(\$1,360,455)	\$851,540
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,910	1,344
Decrease (increase) in operating assets:		
Grants receivable	1,503,776	74,116
Other receivables	8,415	(14,405)
Prepaid expenses and deposits	(14,282)	(13,426)
Increase (decrease) in operating liabilities:		
Accounts payable	3,297	(11,087)
Accrued compensation	6,786	1,766
Net cash provided by operating activities	155,447	889,848
Cash flows from investing activities:		
Certificates of deposit with original maturities of 9 to 12 months	(3,684,954)	
Purchase of equipment		(3,559)
Net cash used by investing activities	(3,684,954)	(3,559)
Net increase (decrease) in cash and cash equivalents	(3,529,507)	886,289
Cash and cash equivalents - beginning of year	4,248,631	3,362,342
Cash and cash equivalents - end of year	\$719,124	\$4,248,631

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



# REDF

## NOTES TO FINANCIAL STATEMENTS

### **Note 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 is an effective strategy for ending chronic poverty. However, for the past twenty years in America the poverty needle has remained stuck for many working-age adults. For discrete populations of low-income individuals—the homeless, at-risk youth, those that have been incarcerated or struggle with mental illness and addiction—poverty exacerbates and protracts already difficult circumstances. REDF addresses both this opportunity and challenge by creating job opportunities for people with the greatest barriers to employment.

### **REDF 2008 Program Accomplishments**

2008 will be remembered for many things. Here at REDF, we are extremely proud of the accomplishments of our four current portfolio organizations over the last twelve months (summarized below). Against our goal of putting 1,000 people into jobs by the end of 2010, the REDF portfolio has already employed 223 people in this first full year of our three-year strategy.

#### **Community Housing Partnership (CHP)**

CHP Enterprises, a business venture of CHP providing property management services to affordable housing providers in San Francisco, celebrated its first anniversary in November. In addition to desk clerk staffing services, CHP Enterprises launched a second business line providing “unit turnover” services (preparing vacant housing units for new occupants). Additionally, REDF helped CHP Enterprises build systems and tools to track their current financial and operational performance, and conducted feasibility analyses to plan for future business expansion.

#### **San Francisco Conservation Corps (SFCC)**

2008 was an important milestone for SFCC as they celebrated 25 years of providing employment opportunities and education to young people in San Francisco. Working with REDF, SFCC intensified business planning efforts to increase the number of young people employed. REDF helped SFCC calculate and articulate the cost per young person served in order to better facilitate contract bidding and fund development efforts. Together REDF and SFCC also identified process and infrastructure improvements to support the planned growth.

#### **San Francisco Clean City Coalition (Clean City)**

2008 has been an important year for Clean City. Together REDF and Clean City have accomplished many capacity-building goals, paving the way for an expansion of their urban maintenance social enterprise. REDF assisted Clean City with identifying and implementing HR, financial, and IT systems improvements and developing an operations manual to ensure continued operational excellence as the business expands.

## REDF NOTES TO FINANCIAL STATEMENTS

### Note 1 – Organization (Continued)

#### St. Vincent de Paul of Alameda County (SVdP)

This year SVdP, one of the San Francisco Bay Area's oldest social services agencies, celebrated their 70th anniversary of providing direct assistance to the needy in Alameda. In November, they also celebrated the launch of their first social enterprise, WasteNot™, which employs transitional workers to provide electronic waste collection services. REDF assisted SVdP with the research and business planning for WasteNot™, as well as setting up the marketing and operations for the new business venture.

#### *Portfolio Pipeline Progress*

Additionally, REDF is moving toward inviting two more organizations into the portfolio. Our pipeline process for vetting prospective organizations has produced two promising organizations in San Francisco's "East Bay" and we are currently concluding our pre-portfolio phase with them (the final phase of our due diligence process). In 2009, we will assess whether or not to invite these organizations into the portfolio.

In addition to our work with the portfolio, REDF is also engaged in two other strategies under its **Employment Programs** heading: **Social Enterprise Expansion** and **Step-Up: Jobs Partnership Program**.

#### **Social Enterprise Expansion**

REDF's Social Enterprise Expansion strategy is assisting social enterprises within our portfolio to identify new, strategic customers and broker contracts that lead to revenue growth. In 2009, our goal is to see 80 new individuals employed in the social enterprises as a result of the business expansion facilitated by this strategy.

In July 2008, REDF focused our work on two target social enterprises in our original portfolio: **Rubicon Landscaping Services** and **Ashbury Images**. To date, formal inquiries have been made with **Safeway, Inc.** (retail grocer), **DBL** (portfolio of socially-motivated businesses) and **TMG Partners** (real estate developers) as well as the **San Francisco Human Rights Commission** – the agency responsible for ensuring that city and county contracts include underrepresented businesses (e.g. minority/women-owned businesses).

Additionally, REDF has submitted an MOU to the **San Francisco Redevelopment Agency** regarding the business opportunities related to the redevelopment of the Bayview Hunters Point neighborhood in southeast San Francisco. Specifically, we are looking to integrate our social enterprise portfolio with the open space maintenance opportunities that are a central part of this \$2billion, multi-year development plan.

#### **Step-Up: Jobs Partnership Program**

In 2008, REDF began the Step Up program by conducting a series of focus groups with our social enterprise portfolio to determine which systems currently exist to place social enterprise graduates in for-profit employment. We then worked toward refining and, to the extent possible, aggregating those systems. A labor market scan was conducted to identify the most appropriate sectors to target employee pipeline development. In 2009, REDF will structure MOUs with one to two for-profit companies identified for demonstration projects employing social enterprise graduates. We will also begin to outline the data analysis needed to measure cost/benefit in favor of firms' proactive recruitment, retention and advancement of employees with barriers to work. This measurement phase will create the powerful case for greater investment by firms (and possibly government) in these activities.

REDF  
NOTES TO FINANCIAL STATEMENTS

**Note 1 – Organization (Continued)**

REDF's other main program focus is **Leadership, Innovation and Impact** (formerly Field Advancement). We continue to initiate and respond to opportunities to present our learnings and to partner with other organizations to advance the field of social enterprise and venture philanthropy. 2008 highlights include:

- REDF received a \$50k grant from Evelyn and Walter Haas, Jr. Fund for California replication of Center for Employment Opportunity's (CEO) NYC model; initial conversations with State conducted.
- With the support of The Aspen Institute, REDF continued our work on "Stepping Out of the Maze," a multi-year project of papers and dissemination activities which looks at the practical application of venture capital practices to philanthropy.
- REDF led a six-session track on social enterprise at the Transitional Jobs Network's annual conference.
- REDF commissioned a national survey of supportive housing providers to explore the promise of a property management social enterprise.
- REDF co-hosted an event with the San Francisco Federal Reserve Bank on Linking Social Enterprise and CRA. REDF Board member Dick Rosenberg gave the opening address.
- REDF and San Francisco Foundation co-hosted an event on the definition and impact of Social Entrepreneurship with REDF Advisory Council member and nationally sought-after social innovation expert Prof. Greg Dees (Duke University, Fuqua School of Business).

We invite you to learn more about REDF on our website at <http://www.redf.org>.

REDF  
NOTES TO FINANCIAL STATEMENTS

**Note 2 - Summary of Significant Accounting Policies**

- (a) Accrual Basis - The financial statements have been prepared on the accrual basis.
- (b) Basis of Presentation - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Unrestricted net assets** - Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets** - Net assets subject to donor-imposed stipulations that may or will be met by the actions of the organization and/or the passage of time.

- (c) Accounting For Restricted Support - Gifts of cash and other assets are reported as restricted support if they are received with a donor stipulation that limits the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- (d) Expenses - Salaries and non-salary administrative costs are allocated to program and supporting services based on management's estimate of the time worked in various program and supporting services. Prior year expenses were reclassified in order to conform to the current year financial statements presentation.

- (e) Cash and Cash Equivalents - For the purpose of the statement of cash flows, cash and cash equivalents include funds in demand deposit accounts, short term and highly liquid investments with an initial maturity of three months or less. Cash and cash equivalents and certificates of deposit as of December 31, 2008 included accounts at two financial institutions with \$250,000 each of FDIC insurance (\$500,000 in total), and the balance of cash and cash equivalents and certificates of deposit were not covered by FDIC insurance.

- (f) Equipment and Furniture - Equipment and furniture are stated at cost if purchased and fair value if acquired through donation. Depreciation is calculated using the straight-line method of depreciation over the estimated useful lives of the assets.

- (g) Estimates - The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

- (h) Income Tax Status - The organization is exempt from Federal and State income tax under the Internal Revenue Code as a Public Charity and under the California Revenue and Taxation Code, whereby only any unrelated business income is subject to Federal and State income tax. Management believes the organization continues to qualify and to operate as a tax-exempt organization.

- (i) Conditional Promises - Conditional promises are recognized as receivables and revenue only when the conditions on which they depend are substantially met and the promises become unconditional. There were no conditional promises as of December 31, 2008.

REDF  
NOTES TO FINANCIAL STATEMENTS

**Note 3 – Grants Receivable**

Grants receivable as of December 31, 2008 consisted of the following:

Receivable in 2009	<u>\$1,419,864</u>
Receivable in 2010 through 2013	\$307,700
Less discounts to net present value at 5%	<u>(15,869)</u>
	<u>\$291,831</u>

**Note 4 - Temporarily Restricted Net Assets**

Temporarily restricted net assets as of December 31, 2008 were available for the following purposes:

General support for 2009	\$1,350,333
General support for 2010 through 2013, net of present value discount	166,832
Green Collar Jobs and other program activities	<u>446,250</u>
	<u>\$1,963,415</u>

**Note 5 – Commitments, Contingencies and Concentrations**

The office lease runs through December 2012, with monthly payments of \$9,427 to \$10,310. Annual rent payments will be \$113,120 for 2009; \$116,655 for 2010; \$120,190 for 2011 and \$123,725 for 2012. Over two-thirds of initial funding was provided from a limited number of substantial contributors, primarily through REDF's Board of Directors. REDF continually broadens its financial backing in order to further support programs and support its tax-exempt status. Receivables are subject to credit risk. No allowance for bad debts has been provided because management believes that all receivables are collectible in full. In the ordinary course of operations, REDF has various contractual and fiduciary obligations. Revenues include amounts collected under grants with various requirements. Management believes that REDF has complied with all requirements.