



Certified Public Accountants, LLP

**REDF**

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

**DECEMBER 31, 2016**

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**INDEPENDENT AUDITORS' REPORT**

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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, 2016, 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, 2016, 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

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### Other Matters

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 9, 2016. 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 August 16, 2017, 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 16, 2017

**REDF**

## STATEMENT OF FINANCIAL POSITION

December 31, 2016

With comparative totals at December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,273,739	\$ 1,808,497	\$ 6,082,236	\$ 1,995,172
Certificates of deposits (Note 2)	4,175,107		4,175,107	4,163,497
Accounts receivable (Note 2)	283,068		283,068	311,978
Pledges receivable (Note 3)	100	19,784,410	19,784,510	21,191,971
Prepaid expenses	134,850		134,850	37,383
Deposits	43,035		43,035	42,099
Property and equipment (Note 5)	719,959		719,959	455,741
<b>TOTAL ASSETS</b>	<u>\$ 9,629,858</u>	<u>\$ 21,592,907</u>	<u>\$ 31,222,765</u>	<u>\$ 28,197,841</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 508,412	\$ -	\$ 508,412	\$ 378,252
Accrued liabilities	207,121		207,121	159,711
<b>TOTAL LIABILITIES</b>	<u>715,533</u>	<u>-</u>	<u>715,533</u>	<u>537,963</u>
<b>NET ASSETS</b>				
Unrestricted	6,914,325		6,914,325	4,271,995
Unrestricted - Board designated (Note 2)	2,000,000		2,000,000	2,000,000
Temporarily restricted (Note 8)		21,592,907	21,592,907	21,387,883
<b>TOTAL NET ASSETS</b>	<u>8,914,325</u>	<u>21,592,907</u>	<u>30,507,232</u>	<u>27,659,878</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 9,629,858</u>	<u>\$ 21,592,907</u>	<u>\$ 31,222,765</u>	<u>\$ 28,197,841</u>

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

**REDF**

## STATEMENT OF ACTIVITIES

For the year ended December 31, 2016

With comparative totals for the year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 2,264,479	\$ 8,818,099	<b>\$ 11,082,578</b>	\$ 21,946,946
Government grants	3,723,411		<b>3,723,411</b>	1,594,139
Special events	1,025,210		<b>1,025,210</b>	800,836
Other income	8,257		<b>8,257</b>	4,571
Investment income	12,536		<b>12,536</b>	2,208
Donated materials (Note 2)			-	1,500
Net assets released from purpose restrictions	8,613,075	(8,613,075)	-	-
	<u>15,646,968</u>	<u>205,024</u>	<u><b>15,851,992</b></u>	<u>24,350,200</u>
<b>TOTAL REVENUE AND SUPPORT</b>				
<b>EXPENSES</b>				
Program services	9,607,402		<b>9,607,402</b>	5,700,304
Management and general	2,087,043		<b>2,087,043</b>	1,899,924
Fundraising	1,310,193		<b>1,310,193</b>	1,133,980
	<u>13,004,638</u>	<u>-</u>	<u><b>13,004,638</b></u>	<u>8,734,208</u>
<b>TOTAL EXPENSES</b>				
<b>CHANGE IN NET ASSETS</b>	2,642,330	205,024	<b>2,847,354</b>	15,615,992
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>6,271,995</u>	<u>21,387,883</u>	<u><b>27,659,878</b></u>	<u>12,043,886</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 8,914,325</u></u>	<u><u>\$ 21,592,907</u></u>	<u><u><b>\$ 30,507,232</b></u></u>	<u><u>\$ 27,659,878</u></u>

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

**REDF**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016

With comparative totals for the year ended December 31, 2015

	<u>Program</u>	<u>Management</u>		<u>Total Expenses</u>	
	<u>Services</u>	<u>and General</u>		<u>Fundraising</u>	<u>2016</u>
Salaries	\$ 1,939,256	\$ 1,045,884	\$ 381,173	\$ 3,366,313	\$ 3,023,369
Payroll taxes	158,019	78,587	30,366	266,972	300,578
Employee benefits	257,241	212,543	54,631	524,415	421,197
Total personnel costs	<u>2,354,516</u>	<u>1,337,014</u>	<u>466,170</u>	<u>4,157,700</u>	<u>3,745,144</u>
Program grants	4,466,917			4,466,917	1,880,820
Industry expertise and consultants	1,560,588	168,850	122,435	1,851,873	1,027,962
Events	183,228	875	608,304	792,407	673,296
Occupancy	302,575	153,132	49,694	505,401	376,045
Travel and meals	385,875	34,833	7,862	428,570	239,783
Technology	96,553	79,673	15,783	192,009	262,330
Depreciation	116,765	52,254	12,772	181,791	68,283
Payroll services		89,239		89,239	72,458
Conference and meetings	39,480	25,354	4,220	69,054	55,240
Office supplies	29,326	13,139	7,431	49,896	44,736
Training and professional development	549	46,653	40	47,242	103,845
Accounting, auditing, and legal		40,292		40,292	33,189
Equipment rental and maintenance	33,779	3,882	1,262	38,923	55,233
Dues and subscriptions	23,194	11,218	3,759	38,171	26,920
Recruiting	190	19,144		19,334	24,127
Insurance	8,606	4,350	1,414	14,370	14,642
Other	853	5,060	8,371	14,284	24,179
Postage and shipping	4,408	2,081	676	7,165	5,976
<b>TOTAL 2016 FUNCTIONAL EXPENSES</b>	<b><u>\$ 9,607,402</u></b>	<b><u>\$ 2,087,043</u></b>	<b><u>\$ 1,310,193</u></b>	<b><u>\$ 13,004,638</u></b>	
<b>TOTAL 2015 FUNCTIONAL EXPENSES</b>	<b><u>\$ 5,700,304</u></b>	<b><u>\$ 1,899,924</u></b>	<b><u>\$ 1,133,980</u></b>		<b><u>\$ 8,734,208</u></b>

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

**REDF**

## STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

With comparative totals for the year ended December 31, 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 2,847,354	\$ 15,615,992
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	181,791	68,283
(Increase) decrease in operating assets:		
Accounts receivable	28,910	1,251,165
Pledges receivable	1,407,461	(16,266,701)
Prepaid expenses	(98,403)	128,403
Increase (decrease) in operating liabilities:		
Accounts payable	130,160	17,204
Accrued liabilities	47,410	(23,988)
	<u>4,544,683</u>	<u>790,358</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
	<u>4,544,683</u>	<u>790,358</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(446,009)	(211,827)
Net proceeds from maturing and purchase of certificates of deposits	(11,610)	(1,601,546)
	<u>(457,619)</u>	<u>(1,813,373)</u>
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>		
	<u>(457,619)</u>	<u>(1,813,373)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,087,064	(1,023,015)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,995,172</u>	<u>3,018,187</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 6,082,236</u>	<u>\$ 1,995,172</u>

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



# REDF

## NOTES TO FINANCIAL STATEMENTS

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### 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 106 social enterprises nation-wide, which have earned and reinvested in their businesses more than \$280 million in revenue and employed over 16,000 people, helping spending for government programs go further while improving lives and communities.

Social enterprises are businesses with a clear social mission, and they take their profits and invest it in helping people. These are businesses that both provide real jobs and help employees stabilize their lives with extra services – ones that help them build their skills and develop a work history. Those services might include financial literacy classes, housing, personal counselling, and help with business attire or work uniforms. When employees are ready, social enterprises help them find lasting, competitive jobs.

REDF invests specifically in social enterprises that have the explicit mission of hiring and supporting people who are overcoming the greatest barriers to work – including histories of homelessness and incarceration, substance abuse and mental health challenges, as well as limited education.

As businesses that must survive in the real world, social enterprises are different from traditional social service agencies. They are competitive places of commerce, built on quality goods or services people want. With a consumer niche and smart business savvy, social enterprises are able to make money and reinvest it to serve their mission of transforming lives. REDF's approach harnesses the power of the market for social impact.

#### *REDF 2016-2020 Strategy and 2016 Program Accomplishments*

2016 marked a pivotal point in REDF's progress towards meeting its five-year goal of employing 50,000 people.

- 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

Overall, our five-year 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: **Support** the **growth** and **success** of social enterprises; engage business, community organizations, government, and philanthropy to build the **practices** and develop the **champions** to support social enterprise.

continued

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 a visible, credible alternative to status quo, while providing a communications platform and tools to help the field leverage practice-based knowledge to promote social enterprise.

***REDF National Portfolio of Social Enterprises***

In April 2016, REDF delivered grants and began to provide technical assistance to its new national portfolio of 22 social enterprises. These social enterprises were selected to receive REDF's financial assistance and advisory services after a nationwide competition that drew over two hundred applicants from 36 states, serving numerous target populations, representing a diversity of industries and business lines, and providing a range of supportive services and real work experience to their employees. With exceptional track records and growth potential, these social enterprises come to REDF with many strengths, including committed, experienced leadership; financial stability and operational excellence; a history of impact; a geography that aligns with REDF's priorities; a willingness to participate in a rigorous program evaluation; and the potential to dramatically increase the number of people they employ and serve.

REDF's grant-making and technical assistance to its portfolio can be summarized in two buckets of work:

- First, REDF identifies each organization's specific growth objectives, business service needs (including, double bottom line financial reporting, market scans and feasibility analyses for new business lines, and marketing plans for merchandise and services, etc.) and employee support needs (programming and support services that help employees build skills, remain employed, and transition to sustainable long-term employment); and
- Second, REDF provides grants and tailored advisory services to help social enterprises build their capacity towards achieving their business and impact objectives.

From providing customized, hands-on technical assistance to this diverse portfolio of organizations, and measuring results, REDF is able to learn the best practices that improve participant outcomes and sustainability for the enterprise.

REDF is fostering an entire community of social enterprise leaders by advising them on the best practices in the field, providing them resources to help their businesses and developing future social enterprise leaders. We also advocate for increased capital for the launching and expansion of social enterprises, and advance public policies that help social enterprises businesses, and the people they employ and train, thrive.

# REDF

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**, continued

From April 1, 2016 through December 31, 2016, REDF's portfolio of social enterprises has employed 3,820 people who overcome significant barriers to work. In future years (2017-2020), REDF projects that its portfolio will employ a growing number of people each year. For perspective on the recent growth trajectory, from 2011-2015—the span of REDF's previous strategic plan—REDF's portfolio consisted of 8 social enterprises based exclusively in California and employed a total of 3,151 people over the five-year period.

In October 2016, REDF convened its new national portfolio of social enterprises for the two-day 2016 Portfolio Retreat in the Presidio in San Francisco. Retreat programming included panel discussions featuring key speakers from portfolio organizations, external subject matter experts, and REDF staff; as well as structured breakout sessions that introduced the groups to each other and facilitated the sharing of best practices.

#### ***SE4Jobs Accelerator***

REDF launched an Accelerator program in July 2016 specifically designed for social enterprise leaders across the country focused on business advancement. The Accelerator brings together a cohort of 18 talented employment focused social enterprise leaders who implement transitional employment models that serve people seeking to overcome barriers to employment, including homelessness, incarceration, mental health/substance use struggles, and limited education. Participants received guidance on core business competencies, employee support programs, and the opportunity to build peer networks to increase job readiness and long-term employment success for these individuals.

The accelerator curriculum focused on marketing and communication; fundraising; leadership skills; employee supports and workforce development; strategic planning and operations.

The curriculum equipped participants with the tools to: better diagnose and overcome organizational challenges by applying a “growth mindset” approach; improve strategic thinking and planning skills; pitch for funding more effectively; learn how to better identify and test assumptions; create a vision of impact to better align and execute a strategy; decrease “burn-out”; and expand local and national professional networks.

Based on this successful first cohort, REDF will continue to open up new Accelerator cohorts in the future.

1. **Organization**, continued

***Los Angeles Regional Initiative for Social Enterprise (LA:RISE)***

The focus of REDF's current work for LA:RISE is to increase the connectivity between social enterprises, next-stage employers (also referred to as competitive or bridge employers), and Personal Service Providers (PSPs) to facilitate an uninterrupted and supported transition to competitive employment for social enterprise employees. REDF's strategy for meeting grant outcomes is to: 1) Coalesce LA:RISE partners around the value of working collaboratively; 2) Build partners' capacity and organize their efforts to process and assist transitioning social enterprise employees; and 3) Track employee retention outcomes, and document learnings.

LA:RISE takes the social enterprise model and places it at the center of an ecosystem resulting in a continuum of employment opportunities and career pathways for people who overcome significant barriers to employment. As part of the initiative, participants begin employment at a participating social enterprise. These social enterprises provide a paid, transitional employment experience and support services that help workers cope with their barriers; build essential hard and soft skills; and remain employed. Participants are concurrently referred to the Los Angeles County Workforce Development (WIOA) system to receive career and training services, financial and computer literacy training, and soft skills development, including resume building, interviewing techniques, and conflict resolution. Participants are also concurrently referred to one of three external PSPs that provide barrier mitigating supports (housing, health, legal services, etc.). Before their time-bound social enterprise employment concludes, workers are evaluated against a set of employer-endorsed Job Readiness Standards before transitioning to competitive employment with a participating employer.

To date, REDF has helped coordinate the employment of 644 people into LA:RISE social enterprises, employment, with 508 co-enrolled with WIOA and 59 referred to a PSP. 87 social enterprise employees have transitioned to next-stage employment.

***REDFworkshop.org***

REDFworkshop is a resource, a connector, and a community of people working together to build a national movement of employment-focused social enterprises. REDFworkshop provides our members with:

- An interactive suite of online tools and best practices to build your business and increase your impact
- Webinars and in-person gatherings to learn from leaders in the field.
- A searchable directory to connect with other employment social enterprises, potential customers, funders, and employers.
- A voice and input on important legislation to help build the social enterprise field.

# REDF

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**, continued

2016 REDFworkshop accomplishments:

- A greater diversity of content was put up (and more of it) – Posted 73 new pieces of content
- A greater proportion of visitors registered – Enrolled 309 new registrants
- Developed private pages for special groups
- Redesigned site navigation and content organization for clarity and simplicity - Had 6,882 unique visitors that participated in 11, 128 “sessions”

### 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.

**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 \$21,592,907 at December 31, 2016.

continued

# REDF

## NOTES TO FINANCIAL STATEMENTS

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

**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, 2016.

#### **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.

#### **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

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

##### **Donated Materials**

Contributions of donated materials are measured on a non-recurring basis and recorded at fair value in the period received. There was no donated materials recorded by REDF for the year ended December 31, 2016.

##### **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 \$10,179,712 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, 2016, 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, 2016, 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

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### 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, 2015, from which the summarized information was derived.

#### **Reclassification**

Certain amounts from the December 31, 2015 financial statements have been reclassified to conform to the December 31, 2016 presentation.

#### **Subsequent Events**

Management has evaluated subsequent events through August 16, 2017, 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.

continued



## REDF

### NOTES TO FINANCIAL STATEMENTS

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#### 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, 2016 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2016. 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, 2016 of \$19,784,510 is expected to be collected as follows:

<u>Year ended December 31,</u>	
2017	\$ 7,003,100
2018	5,034,000
2019	4,234,000
2020	3,737,275
2021	<u>20,000</u>
	20,028,375
Less: unamortized discount on pledges receivable	<u>(243,865)</u>
	<u>\$19,784,510</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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,883,745</u>	<u>\$8,883,745</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).

## REDF

### NOTES TO FINANCIAL STATEMENTS

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#### 5. Property and Equipment

Property and equipment at December 31, 2016 consist of the following:

Website	\$ 352,784
Leasehold improvement	191,483
Furnishing and equipment	147,945
Computer	132,614
Construction in progress	100,871
Software	<u>80,088</u>
	1,005,785
Less: accumulated depreciation	<u>(285,826)</u>
	<u>\$ 719,959</u>

Depreciation expense for the year ended December 31, 2016 was \$181,791.

#### 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>	
2017	\$ 421,742
2018	401,158
2019	413,193
2020	<u>283,381</u>
	<u>\$1,519,474</u>

Rent expense under operating leases for the year ended December 31, 2016 was \$488,058.

##### 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.

continued

## REDF

### NOTES TO FINANCIAL STATEMENTS

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#### 7. 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, 2016 were \$71,419.

#### 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 consist of the following:

Time restricted support	\$18,184,410
Support for Social Enterprises, Regional Ecosystems and National Field Building	<u>3,408,497</u>
	<u>\$21,592,907</u>

For the year ended December 31, 2016, net assets released from time and purpose restrictions were \$6,939,725 and \$1,673,350 respectively.

**SUPPLEMENTAL SCHEDULE**

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**REDF**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended December 31, 2016

<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>	<u>Pass-through to Sub-recipient</u>
<b>Federal Award</b>						
Corporation for National Community Service ("CNCS"):						
Directly from CNCS, Social Innovation Fund (a)	15SIHCA001	94.019	08/01/15 - 07/31/20	\$ 7,000,000	\$ 3,425,415	\$ 3,425,415
<b>Total CNCS</b>				<u>7,000,000</u>	<u>3,425,415</u>	<u>3,425,415</u>
Department of Labor ("DOL"):						
Pass through City of Los Angeles:						
Workforce Innovation Fund - LA: RISE - Program Administration & Technical Assistance	C-127534	17.283	10/01/15 - 10/31/18	665,500	297,996	-
<b>Total DOL</b>				<u>665,500</u>	<u>297,996</u>	<u>-</u>
<b>Total Federal Awards</b>				<u><u>\$ 7,665,500</u></u>	<u><u>\$ 3,723,411</u></u>	<u><u>\$ 3,425,415</u></u>

(a) Audited as a major program

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal Awards activity of REDF, under the programs of the federal government for the year ended December 31, 2016 in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of REDF, it is not intended to and does not present the financial position, changes in net assets, or cash flows of REDF.

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

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or limited as to reimbursement. REDF has elected not to use the 10 per cent de minimis indirect cost rate as allowed under the Uniform Guidance.

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**

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**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***

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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 (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2016, 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 16, 2017.

**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 from 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

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**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  
August 16, 2017



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

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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, 2016. 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, 2016.

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

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**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  
August 16, 2017

**REDF**  
**Schedule of Findings and Questioned Costs**  
For the year ended December 31, 2016

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**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.