



Certified Public Accountants, LLP

REDF

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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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, 2017, 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 from 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, 2017, 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 Matter

Report on Summarized Comparative Information

We have previously audited REDF's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 16, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 June 21, 2018, 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 solely 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 the effectiveness of REDF's 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
June 21, 2018

REDF

STATEMENT OF FINANCIAL POSITION

December 31, 2017

With comparative totals at December 31, 2016

	Unrestricted	Temporarily Restricted	2017	2016
ASSETS				
Cash and cash equivalents	\$ 8,537,319	\$ 1,914,078	\$ 10,451,397	\$ 6,082,236
Certificates of deposits (Note 2)	4,184,026		4,184,026	4,175,107
Accounts receivable (Note 2)	232,855		232,855	283,068
Loans receivable (Note 2)	175,000		175,000	-
Pledges receivable (Note 3)		16,714,698	16,714,698	19,784,510
Prepaid expenses	115,589		115,589	134,850
Deposits	46,972		46,972	43,035
Property and equipment (Note 5)	525,406		525,406	719,959
TOTAL ASSETS	\$ 13,817,167	\$ 18,628,776	\$ 32,445,943	\$ 31,222,765
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 540,320	\$ -	\$ 540,320	\$ 508,412
Accrued liabilities	220,264		220,264	207,121
TOTAL LIABILITIES	760,584	-	760,584	715,533
NET ASSETS				
Unrestricted	11,056,583		11,056,583	6,914,325
Unrestricted - Board designated (Note 2)	2,000,000		2,000,000	2,000,000
Temporarily restricted (Note 8)		18,628,776	18,628,776	21,592,907
TOTAL NET ASSETS	13,056,583	18,628,776	31,685,359	30,507,232
TOTAL LIABILITIES AND NET ASSETS	\$ 13,817,167	\$ 18,628,776	\$ 32,445,943	\$ 31,222,765

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

REDF

STATEMENT OF ACTIVITIES
For the year ended December 31, 2017
With comparative totals for the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	2017	2016
REVENUE AND SUPPORT				
Contributions	\$ 1,292,240	\$ 9,215,450	\$ 10,507,690	\$ 11,082,578
Government grants	3,912,853		3,912,853	3,723,411
Donated services (Note 2)	626,849		626,849	-
Other income	26,501		26,501	8,257
Investment income	13,387		13,387	12,536
Special events	-		-	1,025,210
Net assets released from purpose restrictions	12,179,581	(12,179,581)	-	-
TOTAL REVENUE AND SUPPORT	18,051,411	(2,964,131)	15,087,280	15,851,992
EXPENSES				
Program services	10,162,335		10,162,335	9,607,402
Management and general	2,440,341		2,440,341	2,087,043
Fundraising	1,307,117		1,307,117	1,310,193
TOTAL EXPENSES	13,909,793	-	13,909,793	13,004,638
CHANGE IN NET ASSETS BEFORE FISCAL SPONSORSHIP ACTIVITY	4,141,618	(2,964,131)	1,177,487	2,847,354
FISCAL SPONSORSHIP ACTIVITY (NOTE 9)	640		640	-
CHANGE IN NET ASSETS	4,142,258	(2,964,131)	1,178,127	2,847,354
NET ASSETS, BEGINNING OF YEAR	8,914,325	21,592,907	30,507,232	27,659,878
NET ASSETS, END OF YEAR	\$ 13,056,583	\$ 18,628,776	\$ 31,685,359	\$ 30,507,232

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

REDF

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	Program Services	Management and General	Fundraising	Total Expenses	
				2017	2016
Salaries	\$ 2,230,368	\$ 1,154,410	\$ 385,005	\$ 3,769,783	\$ 3,366,313
Payroll taxes	180,664	84,904	30,626	296,194	266,972
Employee benefits	364,903	256,893	66,136	687,932	524,415
Total personnel costs	<u>2,775,935</u>	<u>1,496,207</u>	<u>481,767</u>	4,753,909	4,157,700
Program grants	4,558,805			4,558,805	4,466,917
Industry expertise and consultants	1,654,470	151,577	94,819	1,900,866	1,851,873
Events	80,335		611,160	691,495	792,407
Occupancy	276,093	151,636	50,086	477,815	505,401
Travel and meals	427,770	32,943	7,886	468,599	428,570
Depreciation	160,351	69,967	20,288	250,606	181,791
Technology	134,812	67,298	22,366	224,476	192,009
Training and professional development	3,954	136,921	479	141,354	47,242
Payroll services		88,207		88,207	89,239
Accounting, auditing, and legal	1,000	69,261		70,261	40,292
Conference and meetings	15,513	53,712	152	69,377	69,054
Recruiting	1,598	67,678	9	69,285	19,334
Office supplies	22,271	7,657	6,221	36,149	49,896
Dues and subscriptions	18,046	9,163	3,174	30,383	38,171
Insurance		28,103		28,103	14,370
Other	15,862	2,026	4,398	22,286	14,284
Equipment rental and maintenance	11,423	6,044	1,996	19,463	38,923
Postage and shipping	4,097	1,941	2,316	8,354	7,165
TOTAL 2017 FUNCTIONAL EXPENSES	<u>\$ 10,162,335</u>	<u>\$ 2,440,341</u>	<u>\$ 1,307,117</u>	<u>\$ 13,909,793</u>	
TOTAL 2016 FUNCTIONAL EXPENSES	<u>\$ 9,607,402</u>	<u>\$ 2,087,043</u>	<u>\$ 1,310,193</u>		<u>\$ 13,004,638</u>

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

REDF

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,178,127	\$ 2,847,354
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	250,606	181,791
(Increase) decrease in operating assets:		
Accounts receivable	50,213	28,910
Other accounts receivable	(175,000)	
Pledges receivable	3,069,812	1,407,461
Prepaid expenses	15,324	(98,403)
Increase (decrease) in operating liabilities:		
Accounts payable	31,908	130,160
Accrued liabilities	13,143	47,410
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,434,133</u>	<u>4,544,683</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(56,053)	(446,009)
Net proceeds from maturing and purchase of certificates of deposits	(8,919)	(11,610)
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(64,972)</u>	<u>(457,619)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,369,161	4,087,064
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,082,236</u>	<u>1,995,172</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,451,397</u>	<u>\$ 6,082,236</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 143 social enterprises nation-wide, which have earned and reinvested in their businesses more than \$467 million in revenue and employed over 27,000 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 2017 Program Accomplishments

2017 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

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 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 2017, REDF delivered grants and provided technical assistance to a national portfolio of 21 social enterprises. These social enterprises were selected in 2016 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.

From January 1, 2017 through December 31, 2017, REDF's portfolio of social enterprises employed 5,289 people who overcome significant barriers to work.

continued

1. Organization, continued

In October 2017, REDF gathered over 100 social enterprise leaders to attend its second annual portfolio retreat in Chicago, IL. The retreat was also attended by leadership from current and alumnae REDF Accelerator and portfolio groups. The portfolio retreat is a unique opportunity for REDF to deliver technical assistance and targeted content requested by portfolio, accelerator and alumni CEOs, but perhaps even more valuable, it creates space for these social enterprises to network and learn from their peers. In addition to scripted programming, the retreat created opportunities for facilitated introductions and peer networking; scheduled site visits to local social enterprises; and presented on a number of newly requested topics, including: cognitive behavioral therapy and trauma-informed practices for SE employees, leveraging technology, removing unconscious bias in hiring, and radical candor (caring deeply and challenging directly) to improve operational and program performance.

Impact Lending

REDF launched its Impact Lending program in 2017. Our first two loans were to Philadelphia-based Wash Cycle Laundry and San Diego-based Kitchens for Good. These loans underwent a rigorous and in depth due diligence process and are intended to serve initiatives and business growth that will target those who are striving to overcome employment barriers, get jobs, keep jobs, and build a better life.

As we examine the potential for this program, we will continue to assess the demand for these loans and engage a wide range of funders – foundations, impact investors, and high net worth individuals – with an appetite for impact investing.

REDF Accelerator

Following on the success of the first cohort in 2016, REDF recruited and launched a second Accelerator cohort in 2017 including 18 talented social enterprise leaders who are using the transitional employment model to help their employees overcome barriers to employment and successfully transition into competitive, long-term employment. By partnering with the Points of Light Civic Accelerator, the REDF Accelerator delivers guidance on core social enterprise competencies, including marketing and communication; strategic planning and operations; financial planning; employee supports; and leadership skills and coaching. The Accelerator programming, combined with peer learning and networking opportunities, enhances SE leaders' abilities to effectively run a social enterprise and increase the number of people their companies employ.

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, LA:RISE has provided transitional employment to 1,275 individuals and has placed 400 individuals into competitive employment. Participants who have gone through the program have also pursued vocational opportunities including diesel mechanic training, truck driving school, administrative and computer literacy, culinary training, and training to become a Certified Nursing Assistant (CNA).

In the spring of 2017, REDF, with the support of LA-based REDFworkshop members, successfully advocated and helped influence the allocation of Measure H funds, a ten-year, quarter-cent sales tax increase to fund homeless support services, to LA:RISE.

REDFworkshop

In May 2017, REDF formally merged its two virtual social enterprise communities SE4Jobs and REDFworkshop.org under the REDFworkshop brand. The new REDFworkshop network has one consolidated membership base of over 1,500 members that are leveraged for communications, programs, and advocacy efforts. It is a learning resource, a connector, and a community of people working together to build a national social movement of employment-focused social enterprises. United in one easy-to-use platform, REDFworkshop is the place to go for practitioners who want to learn about social enterprise, grow their businesses, increase their impact, and support the power of a job to transform a life.

REDF

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

The next phase of REDFworkshop development will focus on a three-pronged strategy that builds out the network's capacity to provide:

- Educational Resources – Webinars; learning modules; case studies; and an enhanced tools suite to help early stage organizations plan their business models and get up and running.
- Connections & Exposure – A comprehensive online census to map, index, and survey social enterprises; in-person convening and networking events; policy and advocacy opportunities; group pages (LA: RISE, Accelerator, Portfolio) to connect to peer organizations.
- Curated Service for Communities – REDFworkshop can curate a package of services and tools that fit the needs of a community. This curated package will pull from REDFworkshop's existing program and services, and focus on building the capacity of social enterprises in the area, while building awareness of the model and its impact.

Policy

REDF works to influence national, state, and local policymakers to support and promote the growth of social enterprise. We do this by mobilizing the social enterprise sector to educate and advocate for evidence-based solutions to addressing chronic unemployment among people who have experienced homelessness, incarceration, mental illness and/or substance addictions, and young people who are disconnected from work and school.

REDF's policy and systems change work is driven by two key objectives:

- Growing Social Enterprise Businesses - Increasing access to capital and technical assistance for businesses with a mission to employ people facing significant barriers to employment.
- Promoting Employee Economic Stability - Increasing access to financial stability and sustainability with tools and incentives for adults and transition age youth (18-24) re-entering or entering the world of work who have been homeless, convicted of a crime, and/or struggling with mental health and/or addiction challenges.

In 2017, REDF co-sponsored a California bill alongside the Western Center on Law & Poverty called the "Transitional Jobs Support Act," Assembly Bill (AB) 415, to help direct participants of the government benefit program, CalFresh Employment and Training Program (CFET), towards social enterprises as part of their employment and training activities. The bill was signed into law on September 28, 2017. CFET helps participants gain skills, training, or work experience to increase their ability to obtain regular employment that leads to economic self-sufficiency. There is a great alignment between the goals of CFET and the work that employment social enterprises do. However, prior to the passage of the bill, social enterprises were not specifically named in the CFET county or state plans.

continued

REDF

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

AB 415's purpose was to encourage a greater partnership between CFET and employment social enterprises, providing employment and training to individuals who face formidable barriers to employment.

This bill:

- Defined employment social enterprise as a social purpose corporation that earns more than half its revenue by providing services or making goods that provide on-the-job and life skills training to participants who face multiple barriers to employment.
- Clarified that the Department of Social Services may contract directly with employment social enterprises or designated intermediary to support the CFET program services.
- Provided more employment and training options to the Abled Bodied Adults Without Dependents (ABAWD) population.

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.

REDF

NOTES TO FINANCIAL STATEMENTS

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 \$18,628,776 at December 31, 2017.

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, 2017.

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.

Loans Receivable

Loans receivable are receivables from the first two recipients of loans provided by REDF under its Impact Lending program. Total loans receivable at December 31, 2017 was \$175,000.

continued

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 Services

Contributions of donated services are measured on a non-recurring basis and recorded at fair value in the period received. REDF received donated services totaling \$626,849 for the year ended December 31, 2017.

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. Eight accounts totaling \$12,478,231 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, 2017, consists of pledges receivable due from foundations and individuals. Concentrations of credit risks with respect to such pledge receivables are limited, as the majority of REDF's pledge receivables are due from foundations who historically have always paid their pledges to REDF, and 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 donated services and pledged contributions at fair value. The specific technique used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

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, 2016, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through June 21, 2018, 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.

REDF

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at December 31, 2017 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2017. 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, 2017 of \$16,714,698 is expected to be collected as follows:

<u>Year ended December 31,</u>	
2018	\$ 6,372,883
2019	5,322,250
2020	4,773,250
2021	<u>405,000</u>
	16,873,383
Less: unamortized discount on pledges receivable	<u>(158,685)</u>
	<u>\$16,714,698</u>

REDF also received pledged support that will be funded by the respective donors' Donor Advised Funds ("DAF"). These pledges have not been recorded by REDF because generally accepted accounting principles only permits the recording of these DAF funded pledges on a cash basis, which is when the funds have been received. DAF funded pledges that have not been recorded but are expected to be received by REDF over the next five years are as follows:

<u>Year ended December 31,</u>	
2018	\$ 910,000
2019	890,000
2020	888,633
2021	550,000
2022	500,000
Thereafter	<u>2,000,000</u>
	<u>\$5,738,633</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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions (new)	\$ -	\$ -	\$8,350,450	<u>\$8,350,450</u>
Donated services		<u>626,849</u>		<u>626,849</u>
	<u>\$ -</u>	<u>\$626,849</u>	<u>\$8,350,450</u>	<u>\$8,977,299</u>

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

continued

REDF

NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements, continued

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

5. Property and Equipment

Property and equipment at December 31, 2017 consist of the following:

Website	\$ 352,784
Leasehold improvement	317,585
Furnishing and equipment	149,427
Computer	145,496
Software	<u>96,546</u>
	1,061,838
Less: accumulated depreciation	<u>(536,432)</u>
	<u>\$ 525,406</u>

Depreciation expense for the year ended December 31, 2017 was \$250,606.

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>	
2018	\$ 497,655
2019	510,372
2020	380,947
2021	95,714
2022	98,585
Thereafter	<u>75,778</u>
	<u>\$1,659,051</u>

Rent expense under operating leases for the year ended December 31, 2017 was \$476,841.

continued

REDF

NOTES TO FINANCIAL STATEMENTS

6. Commitments and Contingencies, continued

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.

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, 2017 were \$94,668.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 consist of the following:

Time restricted support	\$16,515,080
Support for Social Enterprises and REDF website	<u>2,113,696</u>
	<u>\$18,628,776</u>

For the year ended December 31, 2017, net assets released from time and purpose restrictions were \$10,294,780 and \$1,884,801 respectively.

9. Fiscal Sponsorship Activity

REDF is the Fiscal Sponsor for an organization called Impact Recyclers. The Fiscal Sponsorship revenues for the year ended December 31, 2017 was \$640.