



**REDF AND AFFILIATE**

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**CONSOLIDATED FINANCIAL STATEMENTS,  
SUPPLEMENTAL SCHEDULES,  
and  
ADDITIONAL INFORMATION**

**DECEMBER 31, 2019**

**PASADENA**  
234 E Colorado Blvd  
Suite M150  
Pasadena, CA 91101  
p: 626.403.6801

**A Trusted Nonprofit Partner**

Main Fax: 626.403.6866

[www.npocpas.com](http://www.npocpas.com)

**OAKLAND**  
1901 Harrison Street  
Suite 1150  
Oakland, CA 94612  
p: 510.379.1182

## CONTENTS

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Independent Auditors' Report	1-2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-22
Supplemental Schedules	
Consolidating Statement of Financial Position	23
Consolidating Statement of Activities	24
Consolidating Statement of Functional Expenses – Programs Only	25
Consolidating Statement of Functional Expenses – Management and General Only	26
Consolidating Statement of Functional Expenses – Fundraising Only	27
Consolidating Statement of Cash Flows	28
Additional Information:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	29-30

## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors  
REDF and Affiliate

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of REDF and Affiliate (a nonprofit organization), which comprise the Consolidated Statement of Financial Position as of December 31, 2019, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of REDF and Affiliate as of December 31, 2019, 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 Matter

#### *Report on Summarized Comparative Information*

We have previously audited REDF's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 May 19, 2020, on our consideration of REDF and Affiliate'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 and Affiliate'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 and Affiliate's internal control over financial reporting and compliance.

*Harrington Group*

Oakland, California

May 19, 2020

## REDF AND AFFILIATE

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019

With comparative totals at December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Consolidated 2019	2018
<b>ASSETS</b>				
Cash and cash equivalents	\$ 9,685,175	\$ 2,013,245	\$ 11,698,420	\$ 12,015,468
Certificates of deposits (Note 2)	4,215,540		4,215,540	4,196,865
Accounts receivable (Note 2)	241,246		241,246	245,340
Loans receivable, net of deferred fees of \$5,385 and allowance of \$81,500 (Note 4)	728,115		728,115	620,607
Pledges receivable (Note 5)		9,075,495	9,075,495	11,482,323
Prepaid expenses and other assets	160,255		160,255	153,388
Deposits	52,282		52,282	46,972
Property and equipment (Note 7)	279,482		279,482	422,617
	<b>\$ 15,362,095</b>	<b>\$ 11,088,740</b>	<b>\$ 26,450,835</b>	<b>\$ 29,183,580</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 317,576	\$ -	\$ 317,576	\$ 403,998
Accrued liabilities	337,554		337,554	268,265
Note payable - net (Note 8)	495,769		495,769	-
	<b>1,150,899</b>	<b>-</b>	<b>1,150,899</b>	<b>672,263</b>
<b>NET ASSETS</b>				
Without donor restrictions	12,211,196		12,211,196	11,565,935
Without donor restrictions - Board designated	2,000,000		2,000,000	2,000,000
With donor restrictions (Note 11)		11,088,740	11,088,740	14,945,382
	<b>14,211,196</b>	<b>11,088,740</b>	<b>25,299,936</b>	<b>28,511,317</b>
	<b>\$ 15,362,095</b>	<b>\$ 11,088,740</b>	<b>\$ 26,450,835</b>	<b>\$ 29,183,580</b>

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

## REDF AND AFFILIATE

### CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Consolidated 2019	2018
<b>REVENUE AND SUPPORT</b>				
Grants and contributions	\$ 4,268,776	\$ 7,177,286	\$ 11,446,062	\$ 10,012,142
Investment income	61,091		61,091	34,867
Other income	15,114		15,114	2,885
Donated services (Note 2)	7,476		7,476	91,563
Net assets released from restrictions (Note 11)	11,033,928	(11,033,928)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>15,386,385</u>	<u>(3,856,642)</u>	<u>11,529,743</u>	<u>10,141,457</u>
<b>EXPENSES</b>				
Program services	11,168,338		11,168,338	9,860,902
Management and general	2,864,886		2,864,886	2,487,906
Fundraising	695,539		695,539	985,333
<b>TOTAL EXPENSES</b>	<u>14,728,763</u>	<u>-</u>	<u>14,728,763</u>	<u>13,334,141</u>
<b>CHANGE IN NET ASSETS BEFORE FISCAL SPONSORSHIP ACTIVITY</b>	657,622	(3,856,642)	(3,199,020)	(3,192,684)
<b>FISCAL SPONSORSHIP ACTIVITY (NOTE 12)</b>	<u>(12,361)</u>		<u>(12,361)</u>	<u>18,642</u>
<b>CHANGE IN NET ASSETS</b>	645,261	(3,856,642)	(3,211,381)	(3,174,042)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>13,565,935</u>	<u>14,945,382</u>	<u>28,511,317</u>	<u>31,685,359</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 14,211,196</u>	<u>\$ 11,088,740</u>	<u>\$ 25,299,936</u>	<u>\$ 28,511,317</u>

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

**REDF AND AFFILIATE**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	Program Services				Total Program Services	Management and General	Fundraising	Total Expenses Consolidated	
	VPP/ Evaluation	Accelerator	LA:RISE	Other Programs				2019	2018
Salaries	\$ 1,342,451	\$ 313,555	\$ 353,113	\$ 952,423	\$ 2,961,542	\$ 1,460,184	\$ 386,075	<b>\$ 4,807,801</b>	\$ 4,298,888
Payroll taxes	109,426	24,205	28,782	76,627	239,040	105,804	29,256	<b>374,100</b>	335,582
Employee benefits	195,404	64,406	68,308	189,093	517,211	380,395	61,110	<b>958,716</b>	824,290
Total personnel costs	1,647,281	402,166	450,203	1,218,143	3,717,793	1,946,383	476,441	<b>6,140,617</b>	5,458,760
Program grants	2,828,101	34,277	-	1,119,450	3,981,828	-	-	<b>3,981,828</b>	3,683,884
Industry expertise and consultants	1,155,765	152,650	171,249	353,752	1,833,416	176,590	132,478	<b>2,142,484</b>	1,934,126
Occupancy	167,177	39,815	50,948	120,229	378,169	165,246	39,154	<b>582,569</b>	502,372
Travel and meals	312,575	107,149	18,444	112,242	550,410	26,036	5,884	<b>582,330</b>	482,211
Technology	69,313	16,249	20,904	51,409	157,875	67,737	16,025	<b>241,637</b>	248,070
Depreciation	76,285	9,789	12,526	85,275	183,875	40,626	9,626	<b>234,127</b>	247,539
Events	84,303	56,030	17,832	44,690	202,855	251	376	<b>203,482</b>	235,211
Accounting, auditing, and legal	-	-	-	11,801	11,801	115,410	60	<b>127,271</b>	43,020
Conference and meetings	19,354	8,484	3,033	19,590	50,461	50,817	4,678	<b>105,956</b>	94,978
Payroll services	-	-	-	-	-	89,762	-	<b>89,762</b>	79,786
Training and professional development	8,021	25	3,753	2,085	13,884	42,142	-	<b>56,026</b>	36,416
Recruiting	-	-	-	295	295	43,725	-	<b>44,020</b>	58,444
Equipment rental and maintenance	12,284	2,926	3,744	8,833	27,787	12,918	2,877	<b>43,582</b>	22,289
Insurance	-	-	-	-	-	42,464	-	<b>42,464</b>	39,385
Office supplies	10,973	2,550	5,270	8,295	27,088	9,157	3,401	<b>39,646</b>	47,208
Dues and subscriptions	4,586	98	157	505	5,346	28,179	437	<b>33,962</b>	25,743
Provision for loan losses	-	-	-	11,500	11,500	-	-	<b>11,500</b>	70,000
Other	2,602	1,387	1,428	3,167	8,584	5,102	3,547	<b>17,233</b>	16,107
Postage and shipping	2,368	564	722	1,717	5,371	2,341	555	<b>8,267</b>	8,592
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<b>\$ 6,400,988</b>	<b>\$ 834,159</b>	<b>\$ 760,213</b>	<b>\$ 3,172,978</b>	<b>\$ 11,168,338</b>	<b>\$ 2,864,886</b>	<b>\$ 695,539</b>	<b>\$ 14,728,763</b>	
<b>TOTAL 2018 FUNCTIONAL EXPENSES</b>	<b>\$ 6,301,934</b>	<b>\$ 698,987</b>	<b>\$ 677,278</b>	<b>\$ 2,182,703</b>	<b>\$ 9,860,902</b>	<b>\$ 2,487,906</b>	<b>\$ 985,333</b>		<b>\$ 13,334,141</b>

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

## REDF AND AFFILIATE

### CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	<b>Consolidated 2019</b>	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (3,211,381)	\$ (3,174,042)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	234,127	247,539
(Gain) on disposal of property	(5,600)	-
(Increase) decrease in operating assets:		
Accounts receivable	4,094	(12,485)
Other accounts receivable	(107,508)	(445,607)
Pledges receivable	2,406,828	5,232,375
Prepaid expenses, deposits and other assets	(12,177)	(37,799)
Increase (decrease) in operating liabilities:		
Accounts payable	(86,422)	(136,322)
Accrued liabilities	69,289	48,001
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(708,750)</b>	1,721,660
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(95,433)	(144,750)
Proceeds from disposal of property	10,041	-
Net proceeds from maturing and purchase of certificates of deposits	(18,675)	(12,839)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>(104,067)</b>	(157,589)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on loan payable	495,769	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>495,769</b>	-
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(317,048)</b>	1,564,071
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>12,015,468</b>	10,451,397
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 11,698,420</b>	\$ 12,015,468

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



# REDF AND AFFILIATE

## NOTES TO CONSOLIDATED 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 directly to 215 social enterprises, which have earned and reinvested in their businesses close to \$1 billion in revenue and employed over 42,000 people (35,075 in our current 2016-2020 strategic period), 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, but share with them a core social purpose. 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 2019 Program Accomplishments***

2019 marked a pivotal point in REDF's progress towards meeting its **five-year goal of 50,000 people employed**.

- by social enterprises and other businesses that REDF directly supports; **and**
- as a result of REDF's broader efforts to build the field and create policy change.

As of December 31, 2019, we exceeded our five-year goal with over **53,500** people employed between January 1, 2016 and December 31, 2019.

**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.

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 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 2019, REDF delivered grants and provided technical assistance to a national portfolio of 17 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.

**In 2019, REDF also provided strategic project grants to 45 organizations nationwide.**

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 AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In June 2019, REDF gathered over 100 social enterprise leaders to attend its third annual portfolio retreat in Boston, MA. 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.

Five social enterprises are also participating in a rigorous randomized controlled trial/quasi-experimental designed impact study that began in the fall of 2018. We anticipate a final report on the study in Spring, 2021. The study will evaluate the impact of social enterprise on participant wages, employment retention, housing stability, dependence on government assistance and recidivism.

#### *Impact Lending*

**REDF Impact Investing Fund (“RIIF”) began as a division of REDF in 2017 and was incorporated in June 2019 as an independent nonprofit corporation under the laws of the State of California.**

**RIIF is disclosed as an affiliate of REDF in this report due to common board governance.**

After more than 20 years of providing grants and advisory services to employment-focused social enterprises, REDF launched RIIF to add an important tool to accelerate the growth of employment social enterprises. As the social enterprise field matures, so does the need to access flexible capital to grow, capitalize on new opportunities, and better serve employees.

RIIF’s mission is to provide financing for employment-focused social enterprises and businesses that employ and support individuals who face employment barriers such as experiences of homelessness, incarceration, addiction and mental health issues, and youth disconnected from school and work. The objective of the financing is to support these organizations to develop entrepreneurial and management skills necessary to grow business revenue and increase employment of people facing barriers. RIIF seeks to demonstrate the creditworthiness of these employment-focused social enterprises and assist organizations in obtaining subsequent capital investments from other sources.

RIIF is demonstrating a model for how flexible loan terms, combined with technical assistance, can improve borrower performance and attract new sources of capital to employment social enterprises. RIIF loans are low-cost and/or long-term loans that require less security than typical impact investments or traditional loans and are accompanied by technical assistance.

RIIF targets the following industries:

- Alternative Staffing
- Recycling, Cleaning and Maintenance
- Food Services
- Manufacturing

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 1. Organization, continued

As of December 31, 2019:

- 6 loans outstanding or closed to date
- \$815k in loan assets
- **653 people with barriers employed by RIIF's Loan Portfolio to date**

#### *REDF Accelerator*

Following on the success of the first, second, and third cohorts in 2016, 2017, and 2018, REDF recruited and launched a fourth Accelerator cohort in 2019 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. In partnership with Acumen+, 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, increase the number of people their companies employ, and improve their employee support programs. **To date, the REDF Accelerator has trained 71 social enterprise leaders.**

#### *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 this groundbreaking partnership resulting in a continuum of employment opportunities and career pathways for people who overcome significant barriers to employment.

The program is continuing to expand in both the City and County of Los Angeles. Additionally, the program continues to support, five WorkSource Centers (WSC), three YouthSource Centers (YSC), ten America's Job Centers of California (AJCC), two retention providers and one legal provider. **As of April 2020, over 3,800 individuals have entered the program with over 1,600 moving into competitive employment.** In addition to facilitating the continued expansion of the programs, our focus in the near term is to diversify the list of competitive employers and strengthen the relationships between these employers and the social enterprises to better serve the need of participants.

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).

# REDF AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Organization, continued

#### *REDFworkshop*

The REDFworkshop network has a **membership base of over 3,280 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.

Educational Resources for all stage social enterprises include webinars; learning guides; tools; case studies; podcasts; shoptalk; and for early stage organizations, an enhanced tools suite to assist with business model development and starting operations.

#### *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.

### 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:

#### **Principles of Consolidation**

The consolidated financial statements of REDF and its Affiliate, RIIF are collectively known as REDF. All inter-organization transactions have been eliminated.

#### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

**With Donor Restrictions.** Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

##### Cash and Cash Equivalents

REDF and its Affiliate 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 the Consolidated 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.

##### Loans Receivable

Loans receivable are receivables from five recipients of loans serviced by REDF and Affiliate under its Impact Lending program. Total loans receivable at December 31, 2019 and 2018 were \$728,115 and \$620,607 respectively (see Note 4).

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### **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 and Affiliate 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.

##### **Donated Materials and Services**

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the years ended December 31, 2019 and 2018, REDF and Affiliate received donated services totaling \$7,476 and \$91,563 respectively, that satisfy the criteria for recognition.

##### **Concentration of Credit Risks**

REDF and Affiliate 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. Four accounts totaling \$11,155,217 held by REDF and Affiliate at various institutions were in excess of the FDIC insurance limit. REDF and its Affiliate has not incurred losses related to these investments.

The primary receivable balance outstanding at December 31, 2019, 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 and Affiliate's pledge receivables are due from foundations who historically have always paid their pledges to REDF and Affiliate, and which management believes are fully collectible.

# REDF AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### **Fair Value Measurements**

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

REDF and Affiliate are required to measure donated services and pledged contributions at fair value. The specific technique used to measure fair value for these consolidated financial statement elements are described in the notes below that relate to each element.

#### **Income Taxes**

REDF and Affiliate are 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 and Affiliate in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. REDF and Affiliate's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

#### **Revenue and Revenue Recognition**

REDF and Affiliate recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A portion of REDF and Affiliate's revenue are derived from cost-reimbursable federal, state, county or local contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when REDF and Affiliate has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the Consolidated Statement of Financial Position.

#### **Functional Allocation of Expenses**

Costs of providing REDF and Affiliate's programs and other activities have been presented in the Consolidated 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.

continued



## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### 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.

##### Recently Adopted Accounting Pronouncement

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. We have implemented ASC Topic 606 and have adjusted the presentation in these financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The ASU is effective for fiscal years beginning after December 15, 2018. Retrospective application is permitted. REDF and Affiliate has implemented the provisions of ASU 2018-08 applicable to both contributions received to contributions made in the accompanying financial statements for the year ended December 31, 2019, under a modified prospective basis, as management believes the standard improves the usefulness and the understandability of the entity’s financial reporting. Accordingly, there is no effect on net assets in connection with REDF and Affiliate’s implementation of ASU 2018-08.

##### Reclassification

Certain amounts from the December 31, 2018 financial statements have been reclassified to conform to the December 31, 2019 presentation.

##### Comparative Totals

The consolidated 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 and Affiliate’s financial statements for the year ended December 31, 2018, from which the summarized information was derived.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 3. Liquidity and Availability of Resources

The following reflects REDF and Affiliate's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use within one year of the consolidated statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if management approves that action. Management reports on its liquidity and availability of financial assets to the Finance Committee on a quarterly basis.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 11,698,420	\$ 12,015,468
Certificates of deposits	4,215,540	4,196,865
Accounts receivable	241,246	245,340
Loans receivable	728,115	620,607
Pledges receivable	<u>9,075,495</u>	<u>11,482,323</u>
Financial assets, at year end	25,958,816	28,560,603
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions for time or purpose	(3,943,279)	(6,700,216)
Management designation for liquidity reserves	<u>(2,000,000)</u>	<u>(2,000,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 20,015,537</u>	<u>\$ 19,860,387</u>

REDF and Affiliate is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, REDF and Affiliate must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of REDF and Affiliate's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, REDF and Affiliate invests cash in excess of daily requirements in short-term investments.

#### 4. Loans Receivable

Loans receivable consist of mission-related loans made by REDF and Affiliate to nonprofit organizations. The loans are generally collateralized by mortgages, business assets, guarantees and pledges from nonprofit organizations. Loans receivable are stated at the principal amount outstanding net of the allowance for loan losses, deferred origination fee revenues and unamortized direct costs. Interest income on a loan is accrued on the outstanding principal at the loan's stated interest rate and accrued interest income is classified as other receivables. REDF and Affiliate has the ability and intent to hold the loans to maturity. As of December 31, 2019 and 2018, management believes all loans receivable share a similar risk profile, are homogenous in nature (i.e. employment social enterprise) and are therefore consolidated for disclosure purposes.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 4. Loans Receivable, continued

REDF and Affiliate prepares an annual assessment of its origination fee revenues and the cost associated with the origination of loans to evaluate the need for capitalization and amortization of these costs. The net amount of deferred origination fees and unamortized initial direct cost, if any, would be reported as part of the loans receivable balance to which it relates on the accompanying consolidated statement of financial position. As of December 31, 2019 and 2018, REDF and Affiliate had \$5,385 and \$9,393 respectively in net deferred origination fee revenues and unamortized direct costs recorded on the accompanying Consolidated Statement of Financial Position.

#### *Allowance for Loan Losses*

The allowance for loan losses represents management's estimate of potential losses inherent in REDF and Affiliate's loan portfolio. In general, credit exposures deemed to be uncollectible are charged to the allowance. Recaptures on previously charged-off amounts are credited to the allowance.

Management evaluates the adequacy of the allowance based on historical and best effort projected performance of its portfolio as well as internal and external factors and trends such as operational efficiency, national and local economic conditions and the adequacy of other cash loan loss reserves available.

The overall allowance may consist of:

- specific allowances for individually identified impaired loans ("ASC 310-10"); and
- general allowances for pools of loans ("ASC 450-20"), which incorporates quantitative (e.g. historical loan loss rates) and qualitative risk factors (e.g. portfolio growth and trends, credit concentrations, economic and regulatory factors, etc.).

As of the date of this report there have been no loan losses and no impairments have been identified. Due to the limited historical activity and credit quality of the existing loan portfolio, in 2019 REDF and Affiliate adopted the policy of maintaining a general allowance for loan losses ("ALL") equal to 10% or more of the outstanding principal value of the portfolio ("Loan Loss Rate"). Due to limited internal data, the ALL rate of 10% was based on management's observation of similar peer lending institutions, market assessment and qualitative risk factors associated with the REDF and Affiliate loan portfolio, most notably the size of the portfolio and the credit quality of the underlying borrowers. As of the years ended December 31, 2019 and 2018, the allowance for loan losses were \$81,500 and \$70,000, respectively.

As of the year ended December 31, 2019 and 2018 the total loans receivable are summarized as follows:

	<u>2019</u>	<u>2018</u>
Loans receivable, principal outstanding	\$815,000	\$700,000
Deferred origination fee revenues, net	(5,385)	(9,393)
Allowance for loan losses	<u>(81,500)</u>	<u>(70,000)</u>
Loans receivable, net of deferred fees and allowances	<u>\$728,115</u>	<u>\$620,607</u>

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 4. Loans Receivable, continued

The following table summarizes the allowance for loan losses:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$70,000	\$ -
Provisions for loan losses during the year	11,500	70,000
Loans charged-off	-	-
Balance, end of year	<u>\$81,500</u>	<u>\$70,000</u>

REDF and Affiliate extends credit to organizations that are mission related. Principal values of the loans included in the current portfolio range from \$75,000 to \$250,000, with interest rates ranging from 4% to 7.25% and terms of up to 60 months. During the years ended December 31, 2019 and 2018, REDF and Affiliate disbursed one loan of \$250,000 and \$525,000 among 3 loans, respectively. As of the year ended December 31, 2019 and 2018 the REDF and Affiliate loan portfolio contained no past due, non-accrual, or impaired loans. Total amount of loans receivable as of December 31, 2019 of \$728,115, is expected to be collected as follows:

<u>Year ending December 31,</u>	
2020	\$ 57,790
2021	330,537
2022	187,826
2023	115,286
2024	<u>123,561</u>
	815,000
Less: allowance for loan losses	(81,500)
Less: deferred origination fee revenues, net	<u>(5,385)</u>
Loans receivable, net of deferred fees and allowances	<u>\$728,115</u>

REDF and Affiliate performs ongoing credit evaluations of their borrowers, maintaining allowances for potential credit losses, when appropriate. For certain extensions of credit, REDF and Affiliate may require collateral, based on their assessment of a borrower's credit risk. REDF and Affiliate holds various types of collateral including real estate, accounts receivable, inventory, equipment, guarantees and financial instruments. Collateral requirements for each borrower may vary according to the specific credit underwriting, terms and structure of loans funded.

Certain commitments are subject to loan agreements with covenants regarding the financial performance of the borrower that must be met before REDF and Affiliate are required to fund the commitment. In addition, REDF and Affiliate manages the potential risk in credit commitments by limiting the total amount of arrangements, both by organizations or affiliates and by monitoring the size and maturity structure of these loans. Although REDF and Affiliate believes the related collateral to be adequate, there is no assurance that the underlying assets have sufficient value to fully collateralize the outstanding balances.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 5. 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, 2019 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2019. A discount rate of 0.7% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at December 31, 2019 of \$9,075,495 is expected to be collected as follows:

<u>Year ending December 31,</u>	
2020	\$5,851,501
2021	1,540,000
2022	1,024,754
2023	500,000
2024	<u>200,000</u>
	9,116,255
Less: unamortized discount on pledges receivable	<u>(40,760)</u>
Total pledges receivable	<u>\$9,075,495</u>

REDF and Affiliate also received pledged support that will be funded by the respective donors' Donor Advised Funds ("DAF"). These pledges have not been recorded by REDF and Affiliate 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 and Affiliate over the next five years are as follows:

<u>Year ending December 31,</u>	
2020	\$1,393,633
2021	845,000
2022	690,000
2023	665,000
2024	500,000
Thereafter	<u>1,000,000</u>
Total DAF pledges	<u>\$5,093,633</u>

#### 6. Fair Value Measurements

The table below shows transactions measured at fair value on a non-recurring basis during the year ended December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions (new)	\$ -	\$ -	\$5,500,000	<u>\$5,500,000</u>
Donated services		<u>7,476</u>		<u>7,476</u>
Total	<u>\$ -</u>	<u>\$7,476</u>	<u>\$5,500,000</u>	<u>\$5,507,476</u>

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 6. Fair Value Measurements, continued

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

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).

#### 7. Property and Equipment

Property and equipment at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Website	\$ 352,833	\$ 352,784
Leasehold improvement	230,191	221,835
Computer	162,659	252,970
Furnishing and equipment	141,379	149,427
Software	<u>239,571</u>	<u>229,571</u>
	1,126,633	1,206,587
Less: accumulated depreciation	<u>(847,151)</u>	<u>(783,970)</u>
Loans receivable, net of deferred fees and allowances	<u>\$ 279,482</u>	<u>\$ 422,617</u>

Depreciation expense for the years ended December 31, 2019 and 2018 were \$234,127 and \$247,539, respectively.

#### 8. Note Payable

REDF and Affiliate had an unsecured note payable with a foundation in the amount of \$500,000. The note bears an interest of 3% and requires interest only payments every quarter. The principal plus any accrued interest is due on December 2029.

Outstanding note payable at December 31, 2019	\$500,000
Less: debt issuance costs	<u>(4,231)</u>
Note payable – net	<u>\$495,769</u>

#### 9. Commitments and Contingencies

##### Obligations under Operating Leases

REDF and Affiliate 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:

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 9. Commitments and Contingencies, continued

<u>Year ending December 31,</u>	
2020	\$393,486
2021	107,197
2022	101,060
2023	<u>75,778</u>
Total future minimum payments	<u>\$677,521</u>

Rent expense under operating leases for the years ended December 31, 2019 and 2018 were \$582,569 and \$502,372, respectively.

#### Contracts

REDF and Affiliate's government contracts are 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 and Affiliate has no provision for the possible disallowance of program costs on its consolidated financial statements.

#### 10. Pension Plan and Deferred Compensation

REDF and Affiliate participate in a qualified defined contribution 401(k) tax deferred retirement plan. REDF and Affiliate 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 years ended December 31, 2019 and 2018 were \$147,101 and \$127,764, respectively.

#### 11. Net Assets With Donor Restrictions

Net assets with donor restrictions for the years ended December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Time restricted support	\$ 9,626,307	\$11,507,885
Support for REDF and Affiliate Social Enterprise Programs	<u>1,462,433</u>	<u>3,437,497</u>
	<u>\$11,088,740</u>	<u>\$14,945,382</u>

For the year ended December 31, 2019, net assets released from time and purpose restrictions were \$8,078,864 and \$2,955,064, respectively. Net assets released from time and purpose restrictions for the year ended December 31, 2018 were \$6,969,290 and \$3,198,699, respectively.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 12. Fiscal Sponsorship Activity

REDF and Affiliate are the Fiscal Sponsor for an organization called Impact Recyclers. The Fiscal Sponsorship activity for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Fiscal sponsor revenues	\$ 68,004	\$ 36,000
Fiscal sponsor expenses	<u>(80,365)</u>	<u>(17,358)</u>
Net fiscal sponsorship activity	<u>\$ (12,361)</u>	<u>\$ 18,642</u>

#### 13. Subsequent Events

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time.

No adjustments have been made to these consolidated financial statements as a result of this uncertainty.

Management has evaluated subsequent events through May 19, 2020, the date which the consolidated financial statements were available for issue. No other events or transactions have occurred during this period that appear to require recognition or disclosure in the consolidated financial statements.



## REDF AND AFFILIATE

### CONSOLIDATING STATEMENT OF FINANCIAL POSITION December 31, 2019

	<b>REDF</b>	<b>RIIF</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,113,176	\$ 1,585,244	\$ -	\$ 11,698,420
Certificates of deposits (Note 2)	4,215,540			4,215,540
Accounts receivable (Note 2)	238,001	3,245		241,246
Loans receivable, net of deferred fees of \$5,385 and allowance of \$81,500 (Note 4)		728,115		728,115
Pledges receivable (Note 5)	9,075,495			9,075,495
Prepaid expenses and other assets	160,255			160,255
Deposits	52,282			52,282
Property and equipment (Note 7)	279,482			279,482
	<b>TOTAL ASSETS</b>	<b>\$ 2,316,604</b>	<b>\$ -</b>	<b>\$ 26,450,835</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 317,576	\$ -	\$ -	\$ 317,576
Accrued liabilities	337,554			337,554
Note payable - net (Note 8)		495,769		495,769
	<b>TOTAL LIABILITIES</b>	<b>495,769</b>	<b>-</b>	<b>1,150,899</b>
<b>NET ASSETS</b>				
Without donor restrictions	10,390,361	1,820,835		12,211,196
Without donor restrictions - Board designated	2,000,000			2,000,000
With donor restrictions (Note 11)	11,088,740			11,088,740
	<b>TOTAL NET ASSETS</b>	<b>1,820,835</b>	<b>-</b>	<b>25,299,936</b>
	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,316,604</b>	<b>\$ -</b>	<b>\$ 26,450,835</b>

See independent auditors' report

**REDF AND AFFILIATE**

CONSOLIDATING STATEMENT OF ACTIVITIES  
For the year ended December 31, 2019

	<u>REDF</u>	<u>RIIF</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE AND SUPPORT</b>					
Contributions	\$ 11,446,062	\$ 1,300,000	\$ 12,746,062	\$ (1,300,000)	\$ 11,446,062
Investment income	42,319	18,772	61,091		61,091
Other income	115,757	1,657	117,414	(102,300)	15,114
Donated services (Note 2)		191,366	191,366	(183,890)	7,476
<b>TOTAL REVENUE AND SUPPORT</b>	<u>11,604,138</u>	<u>1,511,795</u>	<u>13,115,933</u>	<u>(1,586,190)</u>	<u>11,529,743</u>
<b>EXPENSES</b>					
Program services	12,430,477	252,519	12,682,996	(1,514,658)	11,168,338
Management and general	2,872,977	63,441	2,936,418	(71,532)	2,864,886
Fundraising	695,539		695,539		695,539
<b>TOTAL EXPENSES</b>	<u>15,998,993</u>	<u>315,960</u>	<u>16,314,953</u>	<u>(1,586,190)</u>	<u>14,728,763</u>
<b>CHANGE IN NET ASSETS BEFORE FISCAL SPONSORSHIP ACTIVITY</b>	(4,394,855)	1,195,835	(3,199,020)	-	(3,199,020)
<b>FISCAL SPONSORSHIP ACTIVITY (NOTE 12)</b>	<u>(12,361)</u>		<u>(12,361)</u>		<u>(12,361)</u>
<b>CHANGE IN NET ASSETS</b>	(4,407,216)	1,195,835	(3,211,381)	-	(3,211,381)
Transfer of assets from related party	(625,000)	625,000	-		-
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>28,511,317</u>		<u>28,511,317</u>		<u>28,511,317</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 23,479,101</u>	<u>\$ 1,820,835</u>	<u>\$ 25,299,936</u>	<u>\$ -</u>	<u>\$ 25,299,936</u>

See independent auditors' report

**REDF AND AFFILIATE**

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES - PROGRAMS ONLY

For the year ended December 31, 2019

	<u>VPP/ Evaluation</u>	<u>Accelerator</u>	<u>LA:RISE</u>	<u>Other Programs</u>	<u>RIIF Program</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
Salaries	\$ 1,342,451	\$ 313,555	\$ 353,113	\$ 952,423	\$ -	\$ 2,961,542	\$ -	\$ 2,961,542
Payroll taxes	109,426	24,205	28,782	76,627		239,040		239,040
Employee benefits	195,404	64,406	68,308	189,093		517,211		517,211
Total personnel costs	<u>1,647,281</u>	<u>402,166</u>	<u>450,203</u>	<u>1,218,143</u>	<u>-</u>	<u>3,717,793</u>	<u>-</u>	<u>3,717,793</u>
Program grants	2,828,101	34,277		2,431,808	100,000	5,394,186	(1,412,358)	3,981,828
Industry expertise and consultants	1,155,765	152,650	171,249	336,350	119,702	1,935,716	(102,300)	1,833,416
Occupancy	167,177	39,815	50,948	120,229		378,169		378,169
Travel and meals	312,575	107,149	18,444	101,336	10,906	550,410		550,410
Technology	69,313	16,249	20,904	51,409		157,875		157,875
Depreciation	76,285	9,789	12,526	85,275		183,875		183,875
Events	84,303	56,030	17,832	44,690		202,855		202,855
Accounting, auditing, and legal				3,948	7,853	11,801		11,801
Conference and meetings	19,354	8,484	3,033	17,684	1,906	50,461		50,461
Payroll services						-		-
Training and professional development	8,021	25	3,753	2,085		13,884		13,884
Recruiting				295		295		295
Equipment rental and maintenance	12,284	2,926	3,744	8,833		27,787		27,787
Insurance						-		-
Office supplies	10,973	2,550	5,270	8,078	217	27,088		27,088
Dues and subscriptions	4,586	98	157	505		5,346		5,346
Provision for loan losses					11,500	11,500		11,500
Other	2,602	1,387	1,428	2,739	428	8,584		8,584
Postage and shipping	2,368	564	722	1,710	7	5,371		5,371
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<u><b>\$ 6,400,988</b></u>	<u><b>\$ 834,159</b></u>	<u><b>\$ 760,213</b></u>	<u><b>\$ 4,435,117</b></u>	<u><b>\$ 252,519</b></u>	<u><b>\$ 12,682,996</b></u>	<u><b>\$ (1,514,658)</b></u>	<u><b>\$ 11,168,338</b></u>

See independent auditors' report

## REDF AND AFFILIATE

### CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES - MANAGEMENT AND GENERAL ONLY

For the year ended December 31, 2019

	<b>REDF</b>	<b>RIIF</b>	<b>Eliminations</b>	<b>Consolidated</b>
Salaries	\$ 1,460,184	\$ -	\$ -	\$ 1,460,184
Payroll taxes	105,804			105,804
Employee benefits	380,395			380,395
Total personnel costs	1,946,383	-	-	1,946,383
Program grants	71,532		(71,532)	-
Industry expertise and consultants	176,590			176,590
Occupancy	165,246			165,246
Travel and meals	26,036			26,036
Technology	67,492	245		67,737
Depreciation	40,626			40,626
Events	251			251
Accounting, auditing, and legal	53,301	62,109		115,410
Conference and meetings	50,817			50,817
Payroll services	89,762			89,762
Training and professional development	42,142			42,142
Recruiting	43,725			43,725
Equipment rental and maintenance	12,918			12,918
Insurance	41,377	1,087		42,464
Office supplies	9,157			9,157
Dues and subscriptions	28,179			28,179
Provision for loan losses				-
Other	5,102			5,102
Postage and shipping	2,341			2,341
	\$ 2,872,977	\$ 63,441	\$ (71,532)	\$ 2,864,886
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<b>\$ 2,872,977</b>	<b>\$ 63,441</b>	<b>\$ (71,532)</b>	<b>\$ 2,864,886</b>

See independent auditors' report

**SUPPLEMENTAL SCHEDULES**

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## REDF AND AFFILIATE

### CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES - FUNDRAISING ONLY

For the year ended December 31, 2019

	<u>REDF</u>	<u>RIIF</u>	<u>Eliminations</u>	<u>Consolidated</u>
Salaries	\$ 386,075	\$ -	\$ -	\$ 386,075
Payroll taxes	29,256			29,256
Employee benefits	61,110			61,110
Total personnel costs	<u>476,441</u>	<u>-</u>	<u>-</u>	<u>476,441</u>
Program grants				-
Industry expertise and consultants	132,478			132,478
Occupancy	39,154			39,154
Travel and meals	5,884			5,884
Technology	16,025			16,025
Depreciation	9,626			9,626
Events	376			376
Accounting, auditing, and legal	60			60
Conference and meetings	4,678			4,678
Payroll services				-
Training and professional development				-
Recruiting				-
Equipment rental and maintenance	2,877			2,877
Insurance				-
Office supplies	3,401			3,401
Dues and subscriptions	437			437
Provision for loan losses				-
Other	3,547			3,547
Postage and shipping	555			555
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<b><u>\$ 695,539</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 695,539</u></b>

See independent auditors' report

**REDF AND AFFILIATE**

CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

	<u>REDF</u>	<u>RIIF</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ (4,407,216)	\$ 1,195,835	\$ -	\$ (3,211,381)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:				
Depreciation	234,127			234,127
(Gain) on disposal of property	(5,600)			(5,600)
Transfer of assets from related party	(625,000)	625,000		-
(Increase) decrease in operating assets:				
Accounts receivable	7,339	(3,245)		4,094
Other accounts receivable	620,607	(728,115)		(107,508)
Pledges receivable	2,406,828			2,406,828
Prepaid expenses, deposits and other assets	(12,177)			(12,177)
Increase (decrease) in operating liabilities:				
Accounts payable	(86,422)			(86,422)
Accrued liabilities	69,289			69,289
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<u>(1,798,225)</u>	<u>1,089,475</u>	<u>-</u>	<u>(708,750)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property and equipment	(95,433)			(95,433)
Proceeds from disposal of property	10,041			10,041
Net proceeds from maturing and purchase of certificates of deposits	(18,675)			(18,675)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<u>(104,067)</u>	<u>-</u>	<u>-</u>	<u>(104,067)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
New borrowings on loan payable	-	495,769		495,769
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>-</u>	<u>495,769</u>	<u>-</u>	<u>495,769</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,902,292)	1,585,244	-	(317,048)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>12,015,468</u>	<u>-</u>	<u>-</u>	<u>12,015,468</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 10,113,176</u>	<u>\$ 1,585,244</u>	<u>\$ -</u>	<u>\$ 11,698,420</u>

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 and Affiliate

We have audited in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of REDF and Affiliate (a nonprofit organization), which comprise the Consolidated Statement of Financial Position as of December 31, 2019, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 19, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered REDF and Affiliate'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of REDF and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of REDF and Affiliate'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 consolidated 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 and Affiliate's consolidated 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 consolidated 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*

Oakland, California  
May 19, 2020