

**REDF AND AFFILIATE**

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**CONSOLIDATED FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
and  
ADDITIONAL INFORMATION**

**DECEMBER 31, 2023**

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors  
REDF and Affiliate

### Opinion

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, 2023, 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.

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, 2023, 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.

### Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of REDF and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about REDF and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

## INDEPENDENT AUDITORS' REPORT

continued

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In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 REDF and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about REDF and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Consolidating Statement of Financial Position, Consolidating Statement of Activities, Consolidating Statement of Functional Expenses – Programs Only, Consolidating Statement of Functional Expenses – Management and General Only, and Consolidating Statement of Functional Expenses – Fundraising Only, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

#### *Report on Summarized Comparative Information*

We have previously audited REDF and Affiliate's 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 30, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## INDEPENDENT AUDITORS' REPORT

continued

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### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2024, 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

June 5, 2024

## REDF AND AFFILIATE

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2023

With comparative totals at December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	2023	2022
<b>ASSETS</b>				
Cash and cash equivalents	\$ 16,220,633	\$ 5,555,679	\$ 21,776,312	\$ 22,273,040
Certificates of deposits (Note 2)	1,619,623		1,619,623	1,595,891
Investments (Note 2 and 4)	9,962,392		9,962,392	-
Accounts receivable (Note 2)	813,213		813,213	504,715
Accrued investment interest (Note 2 and 4)	70,172		70,172	-
Accrued interest receivable	25,638		25,638	10,665
Loans receivable, net of deferred fees of \$(11,646) and allowance of \$764,149 (Note 5)	1,951,458		1,951,458	1,759,442
Pledges receivable (Note 6)		17,638,602	17,638,602	22,506,994
Prepaid expenses and other assets	300,847		300,847	218,758
Deposits	38,653		38,653	16,730
Property and equipment (Note 8)	933,028		933,028	262,124
Right-of-use asset - operating lease (Note 9)	2,423,972		2,423,972	2,560,907
<b>TOTAL ASSETS</b>	<b>\$ 34,359,629</b>	<b>\$ 23,194,281</b>	<b>\$ 57,553,910</b>	<b>\$ 51,709,266</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 535,495	\$ -	\$ 535,495	\$ 376,907
Accrued liabilities	1,266,773		1,266,773	1,098,816
Operating lease liability (Note 9)	2,423,972		2,423,972	2,560,907
Notes payable - net (Note 10)	8,006,810		8,006,810	6,809,312
Deferred revenue	121,000		121,000	121,000
<b>TOTAL LIABILITIES</b>	<b>12,354,050</b>	<b>-</b>	<b>12,354,050</b>	<b>10,966,942</b>
<b>NET ASSETS</b>				
Without donor restrictions	20,005,579		20,005,579	9,260,102
Without donor restrictions - Board designated	2,000,000		2,000,000	2,000,000
With donor restrictions (Note 12)		23,194,281	23,194,281	29,482,222
<b>TOTAL NET ASSETS</b>	<b>22,005,579</b>	<b>23,194,281</b>	<b>45,199,860</b>	<b>40,742,324</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 34,359,629</b>	<b>\$ 23,194,281</b>	<b>\$ 57,553,910</b>	<b>\$ 51,709,266</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, 2023

With comparative totals for the year ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2023</u>	<u>2022</u>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 13,238,313	\$ 12,898,119	\$ 26,136,432	\$ 15,621,901
Government contracts		2,029,604	2,029,604	1,310,060
Investment income	617,883		617,883	280,213
Unrealized gains on investments	23,583		23,583	-
Other income	2,500		2,500	2,800
Net assets released from restrictions (Note 12)	21,215,664	(21,215,664)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>35,097,943</u>	<u>(6,287,941)</u>	<u>28,810,002</u>	<u>17,214,974</u>
<b>EXPENSES</b>				
Program services	19,406,584		19,406,584	14,673,681
Management and general	3,593,881		3,593,881	2,807,084
Fundraising	1,352,001		1,352,001	1,282,795
<b>TOTAL EXPENSES</b>	<u>24,352,466</u>	<u>-</u>	<u>24,352,466</u>	<u>18,763,560</u>
<b>CHANGE IN NET ASSETS</b>	10,745,477	(6,287,941)	4,457,536	(1,548,586)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>11,260,102</u>	<u>29,482,222</u>	<u>40,742,324</u>	<u>42,290,910</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 22,005,579</u>	<u>\$ 23,194,281</u>	<u>\$ 45,199,860</u>	<u>\$ 40,742,324</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, 2023

With comparative totals for the year ended December 31, 2022

	Program Services				Total Program Services	Management and General	Fundraising	Total Expenses	
	Growth Portfolio	Accelerator	Government Partnerships	Other Programs				2023	2022
Salaries	\$ 1,157,773	\$ 611,949	\$ 1,292,720	\$ 3,400,231	\$ 6,462,673	\$ 1,547,471	\$ 842,994	\$ 8,853,138	\$ 7,182,994
Employee benefits	215,965	69,925	273,560	689,745	1,249,195	564,886	129,255	1,943,336	1,398,956
Payroll taxes	91,735	48,924	99,447	252,451	492,557	112,676	60,792	666,025	537,143
Total personnel costs	<u>1,465,473</u>	<u>730,798</u>	<u>1,665,727</u>	<u>4,342,427</u>	<u>8,204,425</u>	<u>2,225,033</u>	<u>1,033,041</u>	<u>11,462,499</u>	<u>9,119,093</u>
Program grants	4,956,500	600,000	155,000	39,400	5,750,900			5,750,900	4,060,929
Industry expertise and consultants	661,748	154,896	676,840	956,681	2,450,165	322,219	141,554	2,913,938	2,701,494
Travel and meals	49,538	223,987	24,993	471,575	770,093	175,380	35,424	980,897	476,555
Occupancy	79,021	45,141	87,519	217,900	429,581	103,172	49,006	581,759	484,259
Technology	69,136	40,032	80,362	190,702	380,232	92,625	43,695	516,552	405,442
Provision for loan losses				470,686	470,686			470,686	279,566
Other	30,080	16,391	4,896	233,117	284,484	6,244	22,413	313,141	245,549
Events		108,052	8,687	172,142	294,881	429	5,134	300,444	188,331
Interest expense				185,149	185,149			185,149	117,983
Accounting, auditing, and legal	1,506	876	1,738	4,297	8,417	158,676	1,194	168,287	160,575
Payroll services					-	151,825		151,825	103,397
Depreciation	13,701	7,775	15,646	42,282	79,404	27,162	9,557	116,123	74,689
Training and professional development	58			5,891	7,538	98,459	19	106,016	48,561
Conference and meetings	3,726	764	1,971	13,458	19,919	79,651	1,654	101,224	74,716
Insurance					-	71,920		71,920	61,185
Equipment rental and maintenance	6,097	3,555	7,208	18,580	35,440	8,112	3,952	47,504	48,909
Dues and subscriptions				986	991	41,189	1	42,181	29,009
Office supplies	5,224	2,478	4,288	12,784	24,774	7,877	4,234	36,885	28,164
Recruiting					-	21,634		21,634	42,110
Postage and shipping	1,711	1,023	2,106	4,665	9,505	2,274	1,123	12,902	13,044
<b>TOTAL 2023 FUNCTIONAL EXPENSES</b>	<b><u>\$ 7,349,521</u></b>	<b><u>\$ 1,937,339</u></b>	<b><u>\$ 2,737,002</u></b>	<b><u>\$ 7,382,722</u></b>	<b><u>\$ 19,406,584</u></b>	<b><u>\$ 3,593,881</u></b>	<b><u>\$ 1,352,001</u></b>	<b><u>\$ 24,352,466</u></b>	
TOTAL 2022 FUNCTIONAL EXPENSES	<u>\$ 5,245,973</u>	<u>\$ 1,695,817</u>	<u>\$ 1,610,455</u>	<u>\$ 6,121,436</u>	<u>\$ 14,673,681</u>	<u>\$ 2,807,084</u>	<u>\$ 1,282,795</u>		<u>\$ 18,763,560</u>

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, 2023

With comparative totals for the year ended December 31, 2022

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 4,457,536	\$ (1,548,586)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	116,123	74,689
Allowance for loan losses	470,687	20,058
Deferred loan origination costs (fee income)	29,928	2,613
Amortization of right-of-use assets - operating leases	136,936	
Interest income and gain on investments	(23,985)	-
(Increase) decrease in operating assets:		
Accounts receivable	(308,498)	(141,660)
Pledges receivable	4,868,392	4,843,467
Accrued investment interest	(70,172)	-
Accrued interest receivable	(14,973)	12,931
Prepaid expenses, deposits and other assets	(104,012)	45,922
Increase (decrease) in operating liabilities:		
Accounts payable	158,588	(38,205)
Accrued liabilities	167,957	213,943
Deferred revenue	-	-
	<b>9,884,507</b>	<b>3,485,172</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(10,000,000)	-
Purchased accrued interest	61,593	-
Disbursed loans	(1,608,123)	(734,375)
Proceeds from repayment of loans receivable	1,634,572	555,207
Loans receivable write-off	-	259,508
Disbursed lines of credit	(1,498,000)	(2,150,710)
Proceeds from repayments of lines of credit provided	778,920	1,869,790
Purchase of property and equipment	(787,027)	(78,411)
Net proceeds from maturing and purchase of certificates of deposits	(23,732)	(12,016)
	<b>(11,441,797)</b>	<b>(291,007)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments of operating leases	(136,936)	-
Net borrowings on loan payable	1,197,498	4,072,522
	<b>1,060,562</b>	<b>4,072,522</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(496,728)</b>	<b>7,266,687</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>22,273,040</b>	<b>15,006,353</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 21,776,312</b>	<b>\$ 22,273,040</b>
<b>NON-CASH INVESTING ACTIVITY:</b>		
Right-of-use assets upon adoption of ASC 842	<b>\$ 305,220</b>	<b>\$ 2,560,907</b>

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.

Twenty-six years later, REDF remains the nation's only venture catalyst investing exclusively in Employment Social Enterprises (ESEs) – businesses achieving transformative social impact – providing jobs, training, and support to people breaking through barriers to employment. Since 1997, REDF has provided seed and growth capital and specialized advisory services to **325+** organizations across **41** States and DC, having earned and reinvested in their businesses **\$2.5+ billion** in revenue and employed over **133,000** people, helping to amplify the impact of public sector investments while improving lives and communities.

These 133,000 people were once part of the millions of Americans who remain sidelined from access and opportunity. Some because of the trauma of homelessness, disconnection from school or work, and other steep barriers to employment—barriers often caused and compounded by the racial inequities in our systems.

Long-standing racially biased policies and practices in the workplace, education, health care, and the criminal justice system have created and sustained an equity gap, starkly exemplified by the earnings and wealth gaps. Black and Hispanic men earn 87 cents and 91 cents, respectively, for every dollar earned by white men. Women of color earn just 63 cents for every dollar earned by white men. In the U.S., the average white family has eight times the wealth of the average Black family and five times the wealth of the average Hispanic family.

As a counterforce to these inequities, REDF invests in and drives demand for ESEs—businesses that hire the very talent others have sidelined—and provide the training, skill building, and support they need to thrive. These investments are in capital (in the form of grants, loans, and access to public contracts), capacity building (in the form of targeted technical assistance in key capabilities like business model, program design, operations, talent, and fundraising), and community (in the form of peer-to-peer learning and engagement) that helps to build a vibrant ESE sector over time.

#### ***REDF 2021-2025 Strategy and Accomplishments***

In 2021, REDF embarked on a new five-year strategy, emboldened by the growth of the prior five years deepening its national footprint, and compelled to action by the nation's reckoning with racial injustice and the systemic inequities brought to light during the COVID-19 pandemic.

Our strategy compels us to go upstream in the field of ESEs and select, invest in, and partner with the most undercapitalized groups often facing the most significant of barriers. In this strategic period, we are prioritizing leaders of color and leaders with lived experience – thereby increasing access for leaders most proximate to the communities we serve.

REDF's strategy centers on the following theory of change: If we make equity focused investments in leaders and ESEs and help develop the strength of those leaders and ESEs through targeted technical assistance, while also investing in community building, advocacy, and support for the field, then we will help build an economy that works, for everyone.

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**In 2023, the third year of our current five-year strategic period alone, REDF deployed grants and loans, and unlocked from the public sector over \$60 million in capital for ESEs, supporting 124 leaders and their enterprises through REDF core programs, and over 132 ESEs through the REDF Community. All of these enterprises combined employed over 19,000 people last year.**

These social enterprises represent a diversity of industries and business lines and provide a range of supportive services and real work experience to their employees.

REDF's service delivery model under this new strategy comprises an interlocking set of programs and services, as defined below.

#### ***Core Programs***

##### ***Accelerator***

The Accelerator program is a 5-month supportive, cohort-based, curated learning experience – where leaders of early-stage ESEs work together to help springboard their growth. In 2023, 32 entrepreneurs from across the US participated in REDF's one-of-a-kind ESE Accelerator. This programming, combined with peer learning and networking opportunities, enhances ESE leaders' abilities to effectively run an ESE, increase the number of people their companies employ, and improve their employee supports programs.

##### ***Growth Portfolio***

The Growth Portfolio program is a 3-year grant investment paired with customized capacity building support for growth-minded ESEs to build capacity and fuel sustainable growth. In 2023, REDF's Growth Portfolio consisted of 36 ESEs which included ten new ESEs that began their three-year journey with us, leveraging capital and targeted capacity building in areas fundamental to their business model, program design, operations, talent strategies, and fundraising. This intensive technical assistance amplifies the impact of the grant and ensures vulnerabilities are minimized and opportunities are maximized for these growing enterprises.

##### ***Impact Lending***

REDF Impact Investing Fund (RIIF), an affiliate of REDF, provides flexible loan capital and capacity building for ESEs seeking to improve financial sustainability, grow their business, and employ more people. Key elements of the RIIF model are: An investment philosophy that adds more value than extracts, a risk rating system that values social and community capital and identifies and mitigates risks in partnership with borrowers, flexible loan terms, and technical assistance alongside financing over the life of the loan. RIIF has closed 26 loans totaling \$7.9M. As of December 2023, RIIF is managing a \$3.8M portfolio of 15 borrowers, \$2.7M distributed and \$1.1M in committed lines of credit, with three loans covered by a California based loan guarantee program with an 80% coverage rate.

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

RIIF began as a program of REDF in 2017 and was incorporated in June 2019 as an independent nonprofit corporation under the laws of the State of California. RIIF became certified as a Community Development Financial Institution (CDFI) in April 2022. Certification is a formal acknowledgement from the U.S. Treasury's CDFI Fund that RIIF prioritizes financing to underserved communities. RIIF's CDFI certification will unlock additional flexible capital to help catalyze growth in RIIF portfolio companies and create more jobs for overlooked talent nationwide. RIIF is disclosed as an affiliate of REDF due to the strategic and operational relationship between the two entities.

#### ***Government Partnerships and Policy***

Government Partnerships and Policy fosters public-private sector partnerships and policy influence at the federal and state levels that promote public investment in ESEs and increase economic mobility for their employees.

#### ***Policy***

Together with our 76 member national Resourcing Employment Social Enterprises Together (RESET) coalition and our 27 member California RESET coalition, REDF advocates for capital, resources, and policy change to ESEs across the U.S. REDF seeks to build demand from the public sector for ESE as a solution through educating government entities of the ESE model, cultivating new public funding sources for ESEs and the related capacity and field building activities, and facilitating ESE access to existing public funding sources. With any programs state and local governments contemplate to assist small businesses and nonprofits, REDF seeks to define and include employment social enterprises in legislation and regulation – a prerequisite for increasing government funds flowing to this field.

#### ***Government Partnerships***

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

LA:RISE is a public sector partnership in Greater Los Angeles, where ESEs, the local workforce system, and the city and county come together to get more Angelenos back to work. Now in its ninth program year, LA:RISE consists of sixteen ESEs, six WorkSource Centers (WSC), three Youth Source Centers (YSC), one specialized retention provider, one legal provider, and eleven America's Job Centers of California (AJCC). LA:RISE is a Top 10 Productivity and Quality Award Winner from the LA County Quality and Productivity Commission.

#### ***California Regional Initiative for Social Enterprise (CA RISE)***

In 2022, REDF collaborated with the State of California to create the first statewide program of its kind in the U.S., the new California Regional Initiative for Social Enterprises (CA RISE). CA RISE will supercharge the power of California's ESEs to advance economic inclusion and mobility for people overcoming barriers to employment. With approved

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

funding of \$25 million in the 2022-2023 state budget, this new program launched in 2023 and will invest in and scale ESEs statewide, creating a stronger and more inclusive economic and workforce development system for the Golden State.

#### **SNAP E&T**

In all our work with ESEs, we help them access resources – whether through our own programs, network, or through publicly available resources – to fuel their sustainability and thereby reach more people. One such additional resource is government funding through SNAP (Supplemental Nutrition and Assistance Program) Employment and Training – a program designed to fund organizations that help people struggling in poverty to secure and sustain gainful employment. These public funds are a strong match for the programs our ESEs operate yet are underleveraged due to our field’s lack of awareness about their availability and how to access. To help resolve this gap, REDF provides technical assistance to ESEs across the country about how to access this vital support.

REDF’s SNAP E&T work also includes co-managing the Skill Up Los Angeles program which connects CalFresh Employment & Training funding with Los Angeles County workforce development agencies including 6 ESEs, so that more Angelenos can get the jobs, training, and support they need to enter and succeed in the workforce. Skill Up Los Angeles is the first CalFresh Employment & Training third-party partnership program to be offered in Los Angeles. It increases local access to workforce and training services by leveraging federal and third-party provider dollars at no additional cost to the County.

In 2022, in partnership with USDA, Seattle Jobs Initiative and Center for Employment Opportunities, REDF selected 24 ESEs to receive a combination of specialized training, technical assistance, and peer mentorship to support their success as SNAP E&T providers. In total, REDF has provided technical assistance to 46 ESEs through our FNS National Partnership Grant.

#### ***Santa Clara County Regional Initiative for Social Enterprise (SCC:RISE)***

County of Santa Clara – Office of Diversion & Reentry Services contracted with REDF to create employment opportunities and paths to economic empowerment for Santa Clara County residents impacted by the justice system by launching new Employment Social Enterprises (and strengthening existing ones) and bringing the service ecosystem, employers, and partner organizations together to co-create solutions. The contract is for \$1.3 million over two years. This contract is a groundbreaking opportunity to reimagine how we can collectively support justice impacted individuals with the public sector.

#### ***Community***

In response to the ever-growing field of ESEs and the catalytic learning that can take place when they have a platform in which to connect, REDF offers Community – a dedicated space and curated resources to help our social enterprise partners and their staff connect, grow, and lead. Community

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

services include affinity groups to build deeper connections between entrepreneurs, a community-wide retreat to inform future strategy and learn with each other, network-wide professional development and individualized coaching for entrepreneurs.

#### ***Programmatic Supports***

##### ***Outreach***

REDF's outreach service triages prospective ESEs for REDF's programming and drives awareness of and interest in the larger ESE community. Their efforts target geographic expansion into under-capitalized regions across the country and have resulted in a greater percentage of organizations in our programs led by BIPOC leaders and leaders with lived experience.

##### ***Capacity Building***

REDF delivers customized capacity building support alongside our capital investments and community-building work to amplify the success of our partners. We work side-by-side with social enterprises to evaluate opportunities for growth and create tailored technical assistance workplans that support each organization as it navigates the critical balance between profit and purpose, scale and sustainability.

##### ***Farber Summer Fellowship***

One tool in this suite of technical assistance services is the Farber Program –a 10-week-long immersion for graduate students pursuing their MBA or other relevant degree programs (e.g., MPA, MPH, MSW) who want to explore careers in social enterprise. During the summer, between the first and second year of their coursework, Farber Fellows are embedded in portfolio organizations and apply their skills to strategic projects that help the social enterprises strengthen their business, employee support programs, and measurement systems and better understand their business v. social costs and margins.

##### ***REDFworkshop***

With a **membership base of over 5,000+**, **REDFWorkshop is an (open source) virtual capacity building toolbox to help practitioners build, grow, and sustain high-impact employment social enterprises.** It features actionable resources on the ins-and-outs of running an ESE, including tools to support your business model, employee success program, enterprise operations, fundraising, leadership development, financial management, and marketing.

##### ***Learning and Evidence***

Learning and Evidence ensures REDF can transform information into insight to move the field forward, influence smart public policy, and drive support to ESEs. Its role, particularly at the onset of a new strategic period, cannot be underestimated. Core to REDF's work is our ability to set clear intentions in our strategy – both in the intended **learnings** to be had and the **impact** to be created.

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

##### **Principles of Consolidation**

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

##### **Basis of Presentation**

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

##### **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 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.

##### **Investments**

REDF and Affiliate values its investments at fair value. Realized and unrealized gains and losses resulting from changes in fair value are reflected in the Consolidate Statement of Activities. Dividends and interest are recognized as they are earned.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### **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 recipients of loans serviced by REDF and Affiliate under its Impact Lending program. Total loans receivable at December 31, 2023 and 2022 were \$1,951,458 and \$1,759,442, respectively (see Note 4).

##### **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.

##### **Right-of-Use Asset – Operating Lease and Operating Lease Liability**

REDF recognizes and measures its leases in accordance with Financial Accounting Standards Board (“FASB”) ASC 842, *Leases*. REDF has a lessee in a noncancellable operating lease for office space. REDF determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. REDF recognizes a lease liability and a Right-of-Use (“ROU”) asset at the commencement date of the lease.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise REDF uses its incremental borrowing rate based on the information available at the commencement date for all leases. REDF incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.



## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized as equal to rent payments regardless of the point in time during the duration of the lease.

#### 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 year ended December 31, 2023, REDF and Affiliate did not receive any donated services.

#### Concentration of Credit Risks

REDF and Affiliate's priority is to place 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. REDF and Affiliate closely monitors the safety of any financial institution it banks with. As of December 31, 2023 ten accounts, totaling \$33,113,132, were held by REDF and Affiliate at two institutions that included amounts that were in excess of the FDIC insurance limit. ***REDF and Affiliate has not incurred any losses related to these investments.***

The primary receivable balance outstanding at December 31, 2023, 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 were historically fully collected by REDF and Affiliate.

#### 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 certain investments, 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.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### **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 a ratio of time devoted to functional areas.

##### **Use of Estimates**

The preparation of consolidated 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.

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### 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 consolidated financial statements for the year ended December 31, 2022, from which the summarized information was derived.

##### Subsequent Events

Management has evaluated subsequent events through June 5, 2024, the date which the consolidated financial statements were available for issue. No events or transactions, have occurred during this period that appear to require recognition or disclosure in the consolidated financial statements.

#### 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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$21,776,312	\$ 22,273,040
Certificates of deposits	1,619,623	1,595,891
Investments	9,962,392	-
Accounts receivable	813,213	504,715
Accrued investment interest	70,172	-
Accrued interest receivable	25,638	10,665
Loans receivable	1,951,458	1,759,442
Pledges receivable	<u>17,638,602</u>	<u>22,506,994</u>
Financial assets, at year end	53,857,410	48,650,747
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions for time or purpose	(9,685,336)	(17,974,959)
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>\$42,172,074</u>	<u>\$ 28,675,788</u>

REDF and Affiliate are 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.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 3. Liquidity and Availability of Resources, continued

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. Investments

REDF and Affiliate investments and related accrued interest receivable consisted of the following during the year and as of December 31, 2023:

Initial investments purchase:	
United States treasury notes	\$ 9,770,117
Purchased accrued interest	61,593
Money market funds	<u>168,290</u>
Total initial investment purchase	\$10,000,000
Purchased accrued interest-reclass to accrued interest	(61,593)
Interest income	402
Unrealized gain – change in fair market value	<u>23,583</u>
Investment value at December 31, 2023	<u>\$ 9,962,392</u>
Purchased accrued interest	\$61,593
Interest income	<u>8,579</u>
Accrued investments interest at December 31, 2023	<u>\$70,172</u>

Investment purchase decisions are made in accordance with REDF and Affiliate's investment policy with fiduciary responsibility to preserve capital and provide liquidity, as needed. REDF and Affiliate investment purchase of United States treasury notes in the secondary market is earning coupon rates between 1.75% and 3.5% with maturities between July 31, 2024 and June 15, 2025.

#### 5. Loans Receivable

Loans receivable consist of mission-related loans made by REDF and Affiliate to mission-based 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, 2023 and 2022, management believes all loans receivable, 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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#### 5. 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, 2023 and 2022, REDF and Affiliate had \$11,646 and \$18,282 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.).

REDF and Affiliate maintains an allowance for loan losses which shall be the greater of: 1) 10% of the total outstanding portfolio (the minimum allowance); and 2) the sum of the general allowances of performing loans and the specific allowances of non-performing loans assigned to each loan per REDF and Affiliate's risk rating system. The general allowances are set by Management, and reflect quantitative (e.g. historical loan loss rates or loan loss rates of peers) and qualitative risk factors (e.g. portfolio growth and trends, credit concentrations, economic and regulatory factors, etc.). These factors and percentages are revisited periodically and adjusted as warranted

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 5. Loans Receivable, continued

As of the years ended December 31, 2023 and 2022, the allowance for loan losses were \$764,149 and \$293,462, respectively. As of the year ended December 31, 2023 and 2022 the total loans receivable are summarized as follows:

	<u>2023</u>	<u>2022</u>
Loans receivable, principal outstanding	\$2,727,253	\$2,034,622
Deferred origination fee revenues, net	(11,646)	18,282
Allowance for loan losses	<u>(764,149)</u>	<u>(293,462)</u>
Loans receivable, net of deferred fees and allowances	<u>\$1,951,458</u>	<u>\$1,759,442</u>

The following table summarizes the allowance for loan losses:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$293,462	\$273,404
Provisions for loan losses during the year	470,687	279,566
Loans charged-off	-	<u>(259,508)</u>
Balance, end of year	<u>\$764,149</u>	<u>\$293,462</u>

Principal values of the loans included in the current portfolio range from \$100,000 to \$500,000, with interest rates ranging from 5.00% to 7.50% and terms ranging from three to 96 months. During the year ended December 31, 2023, REDF and Affiliate disbursed four loans with amounts of \$900,000, \$500,000, \$183,000, and \$100,000 respectively, and also approved four lines of credits with amounts of \$500,000, \$500,000, \$500,000 and \$250,000 respectively. As of the year ended December 31, 2023, the REDF and Affiliate loan portfolio contained one non-accrual loan in the amount of \$100,000 that was fully reserved for in 2020. This year's activity also included fully reserving for one loan with a remaining balance of \$491,221 undergoing a troubled debt restructuring. Three of REDF and Affiliate's 15 loans under management are also covered by a CA based loan guarantee program with 80% coverage. Total amount of loans receivable as of December 31, 2023, of \$2,727,253 is expected to be collected as follows:

<u>Year ending December 31,</u>	
2024	\$1,845,214
2025	452,090
2026	165,708
2027	114,097
2028	<u>150,144</u>
	2,727,253
Less: allowance for loan losses	(764,149)
Less: deferred origination fee revenues, net	<u>(11,646)</u>
Loans receivable, net of deferred fees and allowances	<u>\$1,951,458</u>

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 5. Loans Receivable, continued

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 accounts receivable, inventory, equipment and guarantees. 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 is 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.

#### 6. 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, 2023 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2023. A discount rate of 4.0% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at December 31, 2023 of \$17,638,602 is expected to be collected as follows:

<u>Year ending December 31,</u>	
2024	\$ 9,178,661
2025	7,131,339
2026	964,449
2027	<u>800,000</u>
	18,074,449
Less: unamortized discount on pledges receivable	<u>(435,847)</u>
Total pledges receivable	<u>\$17,638,602</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>	
2024	\$4,768,000
2025	4,569,000
2027	<u>550,000</u>
Total DAF pledges	<u>\$9,887,000</u>

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 7. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2023 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	<u>\$9,962,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$9,962,392</u>

The fair values of equities, mutual funds, and U.S. government securities have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The table below shows transactions measured at fair value on a non-recurring basis during the year ended December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions (new)	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,605,949</u>	<u>\$3,605,949</u>

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).

#### 8. Property and Equipment

Property and equipment at December 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Website	\$ 531,882	\$ 352,833
Software	408,515	239,571
Computer	335,452	196,576
Construction in progress	294,213	-
Furnishing and equipment	206,504	200,559
Leasehold improvement	<u>175,672</u>	<u>175,672</u>
	1,952,238	1,165,211
Less: accumulated depreciation	<u>(1,019,210)</u>	<u>(903,087)</u>
	<u>\$ 933,028</u>	<u>\$ 262,124</u>

Depreciation expense for the years ended December 31, 2023 and 2022 were \$116,123 and \$74,689, respectively.

#### 9. Right-of-Use Assets and Lease Liabilities - Operating Leases

REDF and Affiliate has an operating lease for its corporate office, which has a term of 88 months and has been recorded in compliance with Accounting Standards Update (“ASU”) 2016-02. The operating lease monthly payments increases every twelve months. The ROU assets represents REDF and Affiliate’s right to use underlying assets for the lease term, and lease liabilities represent REDF and Affiliate’s obligation to make lease payments arising from this lease. The ROU assets and lease liabilities, all of which arise from operating lease, were calculated based on the present value of future lease payments over the lease terms.

continued



## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 9. Right-of-Use Assets and Lease Liabilities - Operating Leases, continued

REDF and Affiliate has made an election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The discount rate applied to calculate lease liabilities as of December 31, 2023, was 4.0%. The lease payments are recognized as equal to rent payments regardless of the point in time during the duration of the lease.

Future minimum payments, by year and in the aggregate, under this lease consists of the following:

<u>Year ending December 31,</u>	
2024	\$ 532,632
2025	537,714
2026	565,124
2027	504,282
2028	492,379
Thereafter	<u>84,103</u>
Total lease payments	2,716,234
Less: present value discount	<u>(292,262)</u>
	<u>\$2,423,972</u>

Rent expense related to operating lease was \$524,126 for the year ended December 31, 2023.

#### 10. Notes Payable

Notes payable at December 31, 2023 consist of the following:

An unsecured note payable with a foundation including interest at 2% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2029. \$ 2,000,000

An unsecured note payable with a foundation including interest at 3% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2030. 2,000,000

An unsecured note payable with a health provider including interest at 3% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2031. 1,000,000

An unsecured note payable with a university including interest at 1% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2025. 1,000,000

Eight unsecured notes payable with individuals as brokered by an impact investment management firm including interest at 3%, payable in every quarter. The principal amounts plus accrued interests to be paid off in year 2026. 800,000

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 10. Notes Payable, continued

An unsecured note payable with a foundation including interest at 3% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2029. REDF and Affiliate has guaranteed the full repayment of the note payable for the first thirty-six months of its term. 500,000

An unsecured note payable with a financial institution including interest at 2% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2028. 500,000

An unsecured note payable with a foundation including interest at 3% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2026. 114,164

An unsecured note payable with a foundation including interest at 3% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2027. 100,000

8,014,164

Less: debt issuance costs

(7,354)

\$8,006,810

Amortized maturities for the loans are as follows:

#### Year ending December 31,

2024	\$ 319,228
2025	1,385,186
2026	303,099
2027	517,295
2028	1,000,000
Thereafter	<u>4,482,002</u>
	<u>\$8,006,810</u>

#### 11. Commitments and Contingencies

##### Letter of Credit

As of December 31, 2021, REDF and Affiliate had a standby letter of credit as security for the performance of a lease agreement in the amount of \$112,287. The letter matures on September 2025.

continued

## REDF AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 11. Commitments and Contingencies, continued

##### 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.

#### 12. Net Assets With Donor Restrictions

Net assets with donor restrictions for the years ended December 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Time restricted support	<b>\$16,893,602</b>	\$20,606,993
Support for REDF and Affiliate Social Enterprise Programs	<u><b>6,300,679</b></u>	<u>8,875,229</u>
	<u><b>\$23,194,281</b></u>	<u>\$29,482,222</u>

For the year ended December 31, 2023, net assets released from time and purpose restrictions were \$8,188,760 and \$10,997,299, respectively. Net assets released from time and purpose restrictions for the year ended December 31, 2022 were \$8,282,241 and \$6,253,832, respectively.

#### 13. 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, 2023 and 2022 were \$324,760 and \$255,448, respectively.

**SUPPLEMENTARY INFORMATION**

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## REDF AND AFFILIATE

### CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2023

	<b>REDF</b>	<b>RIIF</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 12,677,951	\$ 9,098,361	\$ -	\$ 21,776,312
Certificates of deposits (Note 2)	1,619,623			1,619,623
Investments (Note 2 and 4)	9,962,392			9,962,392
Accounts receivable (Note 2)	810,296	2,917		813,213
Accrued investment interest (Note 2 and 4)	70,172			70,172
Accrued interest receivable		25,638		25,638
Loans receivable, net of deferred fees of 11,646 and allowance of \$764,149 (Note 5)		1,951,458		1,951,458
Pledges receivable (Note 6)	17,638,602			17,638,602
Prepaid expenses and other assets	500,847		(200,000)	300,847
Deposits	38,653			38,653
Property and equipment (Note 8)	933,028			933,028
Right of use asset - operating lease (Note 9)	2,423,972			2,423,972
	<b>\$ 46,675,536</b>	<b>\$ 11,078,374</b>	<b>\$ (200,000)</b>	<b>\$ 57,553,910</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 535,495	\$ -	\$ -	\$ 535,495
Accrued liabilities	1,259,093	7,680		1,266,773
Operating lease liability (Note 9)	2,423,972			2,423,972
Notes payable - net (Note 10)		8,006,810		8,006,810
Deferred revenue		321,000	(200,000)	121,000
	<b>4,218,560</b>	<b>8,335,490</b>	<b>(200,000)</b>	<b>12,354,050</b>
<b>NET ASSETS</b>				
Without donor restrictions	18,187,695	1,817,884		20,005,579
Without donor restrictions - Board designated	2,000,000			2,000,000
With donor restrictions (Note 12)	22,269,281	925,000		23,194,281
	<b>42,456,976</b>	<b>2,742,884</b>	<b>-</b>	<b>45,199,860</b>
	<b>\$ 46,675,536</b>	<b>\$ 11,078,374</b>	<b>\$ (200,000)</b>	<b>\$ 57,553,910</b>

See independent auditors' report

**REDF AND AFFILIATE**

## CONSOLIDATING STATEMENT OF ACTIVITIES

For the year ended December 31, 2023

	<u>REDF</u>	<u>RIIF</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE AND SUPPORT</b>					
Contributions	\$ 24,807,028	\$ 1,329,404	\$ 26,136,432	\$ -	\$ 26,136,432
Government contracts	2,029,604		2,029,604		2,029,604
Investment income	302,318	315,565	617,883		617,883
Unrealized gains on investments	23,583		23,583		23,583
Other income	876,955		876,955	(874,455)	2,500
Donated material and services (Note 2)		1,130,671	1,130,671	(1,130,671)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>28,039,488</u>	<u>2,775,640</u>	<u>30,815,128</u>	<u>(2,005,126)</u>	<u>28,810,002</u>
<b>EXPENSES</b>					
Program services	19,624,984	1,706,752	21,331,736	(1,925,152)	19,406,584
Management and general	3,557,036	116,819	3,673,855	(79,974)	3,593,881
Fundraising	1,352,001		1,352,001		1,352,001
<b>TOTAL EXPENSES</b>	<u>24,534,021</u>	<u>1,823,571</u>	<u>26,357,592</u>	<u>(2,005,126)</u>	<u>24,352,466</u>
<b>CHANGE IN NET ASSETS</b>	3,505,467	952,069	4,457,536		4,457,536
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>38,951,509</u>	<u>1,790,815</u>	<u>40,742,324</u>		<u>40,742,324</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 42,456,976</u>	<u>\$ 2,742,884</u>	<u>\$ 45,199,860</u>	<u>\$ -</u>	<u>\$ 45,199,860</u>

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**REDF AND AFFILIATE**

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES - PROGRAMS ONLY

For the year ended December 31, 2023

	<u>Growth Portfolio</u>	<u>Accelerator</u>	<u>Government Partnerships</u>	<u>Other Programs</u>	<u>RIIF Program</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
Salaries	\$ 1,157,773	\$ 611,949	\$ 1,292,720	\$ 3,400,231	\$ -	\$ 6,462,673	\$ -	\$ 6,462,673
Employee benefits	215,965	69,925	273,560	689,745		1,249,195		1,249,195
Payroll taxes	91,735	48,924	99,447	252,451		492,557		492,557
Total personnel costs	<u>1,465,473</u>	<u>730,798</u>	<u>1,665,727</u>	<u>4,342,427</u>	<u>-</u>	<u>8,204,425</u>	<u>-</u>	<u>8,204,425</u>
Program grants	4,956,500	600,000	155,000	1,090,097		6,801,597	(1,050,697)	5,750,900
Industry expertise and consultants	661,748	154,896	676,840	811,799	1,019,337	3,324,620	(874,455)	2,450,165
Travel and meals	49,538	223,987	24,993	448,033	23,542	770,093		770,093
Provision for loan losses					470,686	470,686		470,686
Occupancy	79,021	45,141	87,519	217,900		429,581		429,581
Technology	69,136	40,032	80,362	190,702		380,232		380,232
Events	6,000	108,052	8,687	171,792	350	294,881		294,881
Other	30,080	16,391	4,896	230,031	3,086	284,484		284,484
Interest expense					185,149	185,149		185,149
Depreciation	13,701	7,775	15,646	42,282		79,404		79,404
Equipment rental and maintenance	6,097	3,555	7,208	18,580		35,440		35,440
Conference and meetings	3,726	764	1,971	10,856	2,602	19,919		19,919
Office supplies	5,224	2,478	4,288	12,784		24,774		24,774
Postage and shipping	1,711	1,023	2,106	4,665		9,505		9,505
Training and professional development	58	1,570	19	4,887	1,004	7,538		7,538
Accounting, auditing, and legal	1,506	876	1,738	4,297		8,417		8,417
Dues and subscriptions	2	1	2	(10)	996	991		991
Payroll services						-		-
Insurance						-		-
Recruiting						-		-
<b>TOTAL 2023 FUNCTIONAL EXPENSES</b>	<u><b>\$ 7,349,521</b></u>	<u><b>\$ 1,937,339</b></u>	<u><b>\$ 2,737,002</b></u>	<u><b>\$ 7,601,122</b></u>	<u><b>\$ 1,706,752</b></u>	<u><b>\$ 21,331,736</b></u>	<u><b>\$ (1,925,152)</b></u>	<u><b>\$ 19,406,584</b></u>

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## REDF AND AFFILIATE

### CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES - MANAGEMENT AND GENERAL ONLY For the year ended December 31, 2023

	<b>REDF</b>	<b>RIIF</b>	<b>Eliminations</b>	<b>Consolidated</b>
Salaries	\$ 1,547,471	\$ -	\$ -	\$ 1,547,471
Employee benefits	564,886			564,886
Payroll taxes	112,676			112,676
Total personnel costs	2,225,033	-	-	2,225,033
Industry expertise and consultants	322,219	-		322,219
Travel and meals	175,380			175,380
Accounting, auditing, and legal	60,649	98,027		158,676
Payroll services	151,825			151,825
Occupancy	103,172			103,172
Training and professional development	98,459			98,459
Technology	92,385	240		92,625
Conference and meetings	79,651			79,651
Insurance	54,414	17,506		71,920
Dues and subscriptions	41,189			41,189
Depreciation	27,162			27,162
Recruiting	21,634			21,634
Equipment rental and maintenance	8,112			8,112
Office supplies	7,877			7,877
Postage and shipping	2,274			2,274
Events	429			429
Other	5,198	1,046		6,244
Program grants	79,974		(79,974)	-
Provision for loan losses				-
<b>TOTAL 2023 FUNCTIONAL EXPENSES</b>	<b>\$ 3,557,036</b>	<b>\$ 116,819</b>	<b>\$ (79,974)</b>	<b>\$ 3,593,881</b>

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## REDF AND AFFILIATE

### CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES - FUNDRAISING ONLY

For the year ended December 31, 2023

	<b>REDF</b>	<b>RIIF</b>	<b>Eliminations</b>	<b>Consolidated</b>
Salaries	\$ 842,994	\$ -	\$ -	\$ 842,994
Employee benefits	129,255			129,255
Payroll taxes	60,792			60,792
Total personnel costs	1,033,041	-	-	1,033,041
Industry expertise and consultants	141,554			141,554
Occupancy	49,006			49,006
Technology	43,695			43,695
Travel and meals	35,424			35,424
Other	22,413			22,413
Depreciation	9,557			9,557
Events	5,134			5,134
Office supplies	4,234			4,234
Equipment rental and maintenance	3,952			3,952
Conference and meetings	1,654			1,654
Postage and shipping	1,123			1,123
Accounting, auditing, and legal	1,194			1,194
Training and professional development	19			19
Dues and subscriptions	1			1
Recruiting				-
Payroll services				-
Program grants				-
Insurance				-
Provision for loan losses				-
	<b>\$ 1,352,001</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,352,001</b>

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**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, 2023, 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 June 5, 2024.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

**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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**Report on 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 consolidated financial statements. 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*.

**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  
June 5, 2024