HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

REDF

FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
REDF

Report on the Financial Statements

We have audited the accompanying financial statements of REDF (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2018, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of REDF as of December 31, 2018, 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.

Other Matter

Report on Summarized Comparative Information

We have previously audited REDF's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 24, 2019, on our consideration of REDF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of REDF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering REDF's internal control over financial reporting and compliance.

Harrington Group

Oakland, California
May 24, 2019

REDF

STATEMENT OF FINANCIAL POSITION
December 31, 2018
With comparative totals at December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018	2017
ASSETS				
Cash and cash equivalents	$ 8,552,409	$ 3,463,059	**$ 12,015,468**	$ 10,451,397
Certificates of deposits (Note 2)	4,196,865		**4,196,865**	4,184,026
Accounts receivable (Note 2)	245,340		**245,340**	232,855
Loans receivable, net of deferred fees of $9,393 and allowance of $70,000 (Note 4)	620,607		**620,607**	175,000
Pledges receivable (Note 5)		11,482,323	**11,482,323**	16,714,698
Prepaid expenses	153,388		**153,388**	115,589
Deposits	46,972		**46,972**	46,972
Property and equipment (Note 7)	422,617		**422,617**	525,406
TOTAL ASSETS	$ 14,238,198	$ 14,945,382	**$ 29,183,580**	$ 32,445,943
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	$ 403,998	$ -	**$ 403,998**	$ 540,320
Accrued liabilities	268,265		**268,265**	220,264
TOTAL LIABILITIES	672,263	-	**672,263**	760,584
NET ASSETS				
Without donor restrictions	11,565,935		**11,565,935**	11,056,583
Without donor restrictions - Board designated	2,000,000		**2,000,000**	2,000,000
With donor restrictions (Note 10)		14,945,382	**14,945,382**	18,628,776
TOTAL NET ASSETS	13,565,935	14,945,382	**28,511,317**	31,685,359
TOTAL LIABILITIES AND NET ASSETS	$ 14,238,198	$ 14,945,382	**$ 29,183,580**	$ 32,445,943

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

REDF

STATEMENT OF ACTIVITIES
For the year ended December 31, 2018
With comparative totals for the year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018	2017
REVENUE AND SUPPORT				
Contributions	$ 2,750,983	$ 6,484,595	**$ 9,235,578**	$ 10,507,690
Government grants	776,564		**776,564**	3,912,853
Donated services (Note 2)	91,563		**91,563**	626,849
Investment income	34,867		**34,867**	13,387
Other income	2,885		**2,885**	26,501
Net assets released from restrictions (Note 10)	10,167,989	(10,167,989)	**-**	-
TOTAL REVENUE AND SUPPORT	13,824,851	(3,683,394)	**10,141,457**	15,087,280
EXPENSES				
Program services	9,860,902		**9,860,902**	10,162,335
Management and general	2,487,906		**2,487,906**	2,440,341
Fundraising	985,333		**985,333**	1,307,117
TOTAL EXPENSES	13,334,141	-	**13,334,141**	13,909,793
CHANGE IN NET ASSETS BEFORE FISCAL SPONSORSHIP ACTIVITY	490,710	(3,683,394)	**(3,192,684)**	1,177,487
FISCAL SPONSORSHIP ACTIVITY (NOTE 11)	18,642		**18,642**	640
CHANGE IN NET ASSETS	509,352	(3,683,394)	**(3,174,042)**	1,178,127
NET ASSETS, BEGINNING OF YEAR	13,056,583	18,628,776	**31,685,359**	30,507,232
NET ASSETS, END OF YEAR	$ 13,565,935	$ 14,945,382	**$ 28,511,317**	$ 31,685,359

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

REDF

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2018
With comparative totals for the year ended December 31, 2017

	VPP/ Evaluation	Accelerator	LA:RISE	Other Program	Total Program Services	Management and General	Fundraising	Total Expenses 2018	Total Expenses 2017
Salaries	$ 1,212,746	$ 241,689	$ 323,801	$ 805,880	$ 2,584,116	$ 1,198,770	$ 516,002	**$ 4,298,888**	$ 3,769,783
Payroll taxes	98,024	19,126	26,713	64,688	208,551	89,158	37,873	**335,582**	296,194
Employee benefits	165,911	60,766	52,243	159,452	438,372	304,757	81,161	**824,290**	687,932
Total personnel costs	1,476,681	321,581	402,757	1,030,020	3,231,039	1,592,685	635,036	**5,458,760**	4,753,909
Program grants	3,509,659			174,225	3,683,884			**3,683,884**	4,558,805
Industry expertise and consultants	759,414	116,850	196,288	532,908	1,605,460	224,385	104,281	**1,934,126**	1,900,866
Occupancy	120,789	34,452	27,675	104,920	287,836	148,763	65,773	**502,372**	477,815
Travel and meals	218,976	133,868	10,515	85,710	449,069	22,952	10,190	**482,211**	468,599
Technology	58,718	19,232	13,575	52,508	144,033	72,141	31,896	**248,070**	224,476
Depreciation	64,442	8,345	6,704	81,132	160,623	70,984	15,932	**247,539**	250,606
Events	50,432	53,761	9,961	24,083	138,237	1,211	95,763	**235,211**	691,495
Conference and meetings	18,107	4,431	4,756	5,157	32,451	53,746	8,781	**94,978**	69,377
Other	232	1,219	481	73,424	75,356	4,159	6,592	**86,107**	22,286
Payroll services					-	79,786		**79,786**	88,207
Recruiting				295	295	58,149		**58,444**	69,285
Office supplies	12,021	3,094	2,776	10,091	27,982	12,463	6,763	**47,208**	36,149
Accounting, auditing, and legal					-	43,020		**43,020**	70,261
Insurance					-	39,385		**39,385**	28,103
Training and professional development	2,540	36	25	1,626	4,227	31,905	284	**36,416**	141,354
Dues and subscriptions	2,500		60	156	2,716	23,027		**25,743**	30,383
Equipment rental and maintenance	5,359	1,529	1,228	4,655	12,771	6,600	2,918	**22,289**	19,463
Postage and shipping	2,064	589	477	1,793	4,923	2,545	1,124	**8,592**	8,354
TOTAL 2018 FUNCTIONAL EXPENSES	**$ 6,301,934**	**$ 698,987**	**$ 677,278**	**$ 2,182,703**	**$ 9,860,902**	**$ 2,487,906**	**$ 985,333**	**$ 13,334,141**	
TOTAL 2017 FUNCTIONAL EXPENSES					$ 10,162,335	$ 2,440,341	$ 1,307,117		$ 13,909,793

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

REDF

STATEMENT OF CASH FLOWS
For the year ended December 31, 2018
With comparative totals for the year ended December 31, 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ (3,174,042)**	$ 1,178,127
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**247,539**	250,606
(Increase) decrease in operating assets:		
Accounts receivable	**(12,485)**	50,213
Other accounts receivable	**(445,607)**	(175,000)
Pledges receivable	**5,232,375**	3,069,812
Prepaid expenses	**(37,799)**	15,324
Increase (decrease) in operating liabilities:		
Accounts payable	**(136,322)**	31,908
Accrued liabilities	**48,001**	13,143
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,721,660**	4,434,133
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	**(144,750)**	(56,053)
Net proceeds from maturing and purchase of certificates of deposits	**(12,839)**	(8,919)
NET CASH (USED) BY INVESTING ACTIVITIES	**(157,589)**	(64,972)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,564,071**	4,369,161
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**10,451,397**	6,082,236
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 12,015,468**	$ 10,451,397

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

1. Organization

REDF began as a project of The Roberts Foundation in 1997 and was incorporated in November 2003 as an independent nonprofit corporation under the laws of the State of California.

REDF is the only venture philanthropy in the U.S. that invests exclusively in the growth of social enterprises focused on employment. Since 1997, REDF has provided seed and growth capital and specialized advisory services to over 177 social enterprises nation-wide, which have earned and reinvested in their businesses more than $720 million in revenue and employed over 36,000 people (25,054 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. 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 2018 Program Accomplishments

2018 marked a pivotal point in REDF's progress towards meeting its five-year goal of employing 50,000 people.

- 25,000 people employed by social enterprises and other businesses that REDF directly supports.
- 25,000 people employed as a result of REDF's broader efforts to build the field and create policy change.

Overall, our five-year strategy focuses on achieving results in three core areas:

- Social enterprises: Provide the **right kinds of capital** at the **right stage**, and the **advice** needed to grow social enterprises and improve results for the people employed.
- Regional ecosystems: **Support** the **growth** and **success** of social enterprises; engage business, community organizations, government, and philanthropy to build the **practices** and develop the **champions** to support social enterprise.

continued

1. Organization, continued

- National field building: Develop the strength and sophistication of a national network and field of practice. Build an active national network to learn, and fuel growth of social enterprise as a visible, credible alternative to status quo, while providing a communications platform and tools to help the field leverage practice-based knowledge to promote social enterprise.

REDF National Portfolio of Social Enterprises

In 2018, REDF delivered grants and provided technical assistance to a national portfolio of 21 social enterprises. These social enterprises were selected in 2016 to receive REDF's financial assistance and advisory services after a nationwide competition that drew over two hundred applicants from 36 states, serving numerous target populations, representing a diversity of industries and business lines, and providing a range of supportive services and real work experience to their employees. With exceptional track records and growth potential, these social enterprises come to REDF with many strengths, including committed, experienced leadership; financial stability and operational excellence; a history of impact; a geography that aligns with REDF's priorities; a willingness to participate in a rigorous program evaluation; and the potential to dramatically increase the number of people they employ and serve.

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

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

- Second, REDF provides grants and tailored advisory services to help social enterprises build their capacity towards achieving their business and impact objectives.

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

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

From January 1, 2016 through December 31, 2018, REDF's portfolio of social enterprises employed 15,462 people who are faced with significant barriers to work. In 2018, the portfolio employed 5,740 people.

continued

1. Organization, continued

In June 2018, REDF gathered over 100 social enterprise leaders to attend its second annual portfolio retreat in Seattle, WA. 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

After more than 20 years of providing grants and advisory services to employment-focused social enterprises, in 2017 REDF launched the Impact Lending Program 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. REDF 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-focused social enterprises. REDF will deploy capital and provide technical assistance on business operations and social impact to borrowers through an integrated double-bottom line approach which leverages 20 years of venture philanthropy experience. REDF's Impact Lending practice complements our existing venture philanthropy model by providing loans to financially sustainable social enterprises that demonstrate an ability to employ and provide training to significant numbers of people and contribute to the growth and health of the social enterprise sector.

Aligning with our existing venture philanthropy portfolio, impact lending targets the following industries:

- Alternative Staffing
- Recycling, Cleaning and Maintenance
- Consumer Goods/Retail
- Food Services
- Manufacturing

As of December 31, 2018:

- 5 loans outstanding
- $700,000 in assets
- 340 people with barriers employed by the loan portfolio

continued

1. **Organization**, continued

REDF Accelerator

Following on the success of the first and second cohorts in 2016 and 2017, REDF recruited and launched a second Accelerator cohort in 2018 including 18 talented social enterprise leaders who are using the transitional employment model to help their employees overcome barriers to employment and successfully transition into competitive, long-term employment. By partnering with the Points of Light Civic Accelerator, the REDF Accelerator delivers guidance on core social enterprise competencies, including marketing and communication; strategic planning and operations; financial planning; employee supports; and leadership skills and coaching. The Accelerator programming, combined with peer learning and networking opportunities, enhances SE leaders' abilities to effectively run a social enterprise and increase the number of people their companies employ.

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. This will translate to employing more individuals with barriers to employment and contracting with, at a minimum, 13 total Social Enterprises in the City and County. As of April 2019, 2,819 individuals have entered the program with 1,048 moving in to 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).

REDFworkshop

The REDFworkshop network has a membership base of over 2,100 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.

continued

1. Organization, continued

Educational Resources include webinars; learning modules; case studies; and an enhanced tools suite to help early stage organizations plan their business models and get up and running.

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.

REDF's influence on policy is primarily at California state level and was done by sending support letters, identifying and securing committee hearing testifier, and direct lobbying to targeted legislature members. In 2018, REDF prioritized supporting three Californian bills and the following two bills are now law and one issue area is in the 2018-19 state budget package:

1. AB 2762 expands contracting preferences to include Social Enterprises and Disabled Veterans Businesses and to increase the preference allowance from 5 percent up to 7 percent.

2. AB 2138 reduces barriers to occupational licensing for individuals with a prior conviction applying for licensure through the Department of Consumer Affairs.

3. The 2018-19 budget expanded the California Earned Income Tax Credit (CalEITC) to young adults and seniors, in addition to increasing the income limit to account for the rising state minimum wage. The budget agreement also provides $10 million to support community-based efforts to promote the CalEITC and evaluate its impact as well as to support organizations that provide free tax preparation services to low-income individuals and families.

continued

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

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 has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Certificates of Deposits

Certificates of deposits with an original maturity of six months or more are not considered cash and cash equivalents and reflected separately on Statement of Financial Position as they are deemed longer term investments.

Accounts Receivable

Accounts receivable are receivables from government agencies. No allowance for doubtful accounts has been provided as they are all deemed collectible.

Loans Receivable

Loans receivable are receivables from five recipients of loans provided by REDF under its Impact Lending program. Total loans receivable at December 31, 2018 and 2017 were $620,607 and $175,000 respectively (see Note 4).

continued

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 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, 2018 and 2017, REDF received donated services totaling $91,563 and $626,849 respectively, that satisfy the criteria for recognition.

Concentration of Credit Risks

REDF places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit. Eight accounts totaling $15,233,664 held by REDF at various institutions were in excess of the FDIC insurance limit. REDF has not incurred losses related to these investments.

The primary receivable balance outstanding at December 31, 2018, consists of pledges receivable due from foundations and individuals. Concentrations of credit risks with respect to such pledge receivables are limited, as the majority of REDF's pledge receivables are due from foundations who historically have always paid their pledges to REDF, and which management believes are fully collectible.

continued

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

Income Taxes

REDF is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by REDF in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. REDF's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing REDF's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services based upon on a ratio of time devoted to functional areas.

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.

continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. REDF's financial statements for year-ended December 31, 2018 are presented in accordance with ASU 2016-14.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with REDF's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through May 24, 2019, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

continued

3. Liquidity and Availability of Resources

The following reflects REDF's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet 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.

	2018	2017
Financial assets, at year end	**$28,750,581**	$ 32,032,249
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions for time or purpose	**(6,767,808)**	(12,743,577)
Management designation for liquidity reserves	**(2,000,000)**	(2,000,000)
Financial assets available to meet cash needs for general expenditures within one year	**$19,982,773**	$ 17,288,672

REDF 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 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'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 invests cash in excess of daily requirements in short-term investments.

4. Loans Receivable

Loans receivable consist of mission-related loans made by REDF 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 has the ability and intent to hold the loans to maturity. As of December 31, 2018 and 2017, 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.

REDF 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, 2018, REDF had $9,393 net deferred origination fee revenues and unamortized direct costs recorded on the accompanying Statement of Financial Position.

continued

4. Loans Receivable, continued

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of potential losses inherent in REDF'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 2018 REDF 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 loan portfolio, most notably the size of the portfolio and the credit quality of the underlying borrowers. As of the years ended December 31, 2018 and 2017, the allowance for loan losses were $70,000 and $0, respectively.

As of the year ended December 31, 2018 and 2017 the total loans receivable are summarized as follows:

	2018	2017
Loans receivable, principal outstanding	**$700,000**	$175,000
Deferred origination fee revenues, net	**(9,393)**	-
Allowance for loan losses	**(70,000)**	-
Loans receivable, net of deferred fees and allowances	**$620,607**	$175,000

The following table summarizes the allowance for loan losses:

	2018	2017
Balance, beginning of year	**$ -**	$ -
Provisions for loan losses during the year	**70,000**	-
Loans charged-off	-	-
Balance, end of year	**$70,000**	$ -

4. Loans Receivable, continued

REDF extends credit to organizations that are mission-related. Principal values of the loans included in the current portfolio range from $75,000 to $200,000, with interest rates ranging from 4% to 5.875% and terms of up to 60 months. During the years ended December 31, 2018 and 2017, REDF disbursed $525,000 among 3 loans and $175,000 among 2 loans, respectively. As of the year ended December 31, 2018 and 2017 the REDF loan portfolio contained no past due, non-accrual, or impaired loans. Total amount of loans receivable as of December 31, 2018 of $620,607 is expected to be collected as follows:

Year ending December 31,	
2019	$ 24,077
2020	59,417
2021	331,184
2022	188,056
2023	97,266
	700,000
Less: deferred origination fee revenues, net	(9,393)
Less: allowance for loan losses	(70,000)
Loans receivable, net of deferred fees and allowances	$620,607

REDF performs ongoing credit evaluations of their borrowers, maintaining allowances for potential credit losses, when appropriate. For certain extensions of credit, REDF may require collateral, based on their assessment of a borrower's credit risk. REDF 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 is required to fund the commitment. In addition, REDF 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 believes the related collateral to be adequate, there is no assurance that the underlying assets have sufficient value to fully collateralize the outstanding balances.

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, 2018 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2018. 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, 2018 of $11,482,323 is expected to be collected as follows:

continued

5. Pledges Receivable, continued

Year ending December 31,	
2019	$ 6,532,521
2020	4,731,647
2021	230,000
2022	24,745
	11,518,913
Less: unamortized discount on pledges receivable	(36,590)
	$11,482,323

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

Year ending December 31,	
2019	$1,210,000
2020	1,208,633
2021	600,000
2022	525,000
2023	500,000
Thereafter	1,500,000
	$5,543,633

6. Fair Value Measurements

The table below shows transactions measured at fair value on a non-recurring basis during the year ended December 31, 2018:

	Level 1	**Level 2**	**Level 3**	**Total**
Pledged contributions (new)	$ -	$ -	$3,625,000	**$3,625,000**
Donated services		91,563		**91,563**
	$ -	$91,563	$3,625,000	**$3,716,563**

The fair value of pledged contributions are 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).

continued

7. Property and Equipment

Property and equipment at December 31, 2018 and 2017 consist of the following:

	2018	2017
Website	**$ 352,784**	$ 352,784
Leasehold improvement	**221,835**	212,035
Computer	**252,970**	145,496
Furnishing and equipment	**149,427**	149,427
Software	**229,571**	202,096
	1,206,587	1,061,838
Less: accumulated depreciation	**(783,970)**	(536,432)
Loans receivable, net of deferred fees and allowances	**$ 422,617**	$ 525,406

Depreciation expense for the years ended December 31, 2018 and 2017 were $247,539 and $250,606 respectively.

8. Commitments and Contingencies

Obligations under Operating Leases

REDF leases various facilities under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Year ending December 31,	
2019	$ 511,929
2020	380,947
2021	95,714
2022	98,585
2023	75,778
	$1,162,953

Rent expense under operating leases for the years ended December 31, 2018 and 2017 were $502,372 and $477,815 respectively.

Contracts

REDF'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 has no provision for the possible disallowance of program costs on its financial statements.

continued

9. Pension Plan and Deferred Compensation

REDF participates in a qualified defined contribution 401(k) tax deferred retirement plan. REDF makes matching contributions to the employee contributions up to 4% of gross pay for each pay. Employees must contribute to trigger this match. Employer contributions under this plan for the years ended December 31, 2018 and 2017 were $127,764 and $94,668 respectively.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions for the years ended December 31, 2018 and 2017 consist of the following:

	2018	2017
Time restricted support	**$11,507,885**	$16,515,080
Support for REDF Social Enterprise Programs	**3,437,497**	2,113,696
	$14,945,382	$18,628,776

For the year ended December 31, 2018, net assets released from time and purpose restrictions were $6,969,290 and $3,198,699 respectively. Net assets released from time and purpose restrictions for the year ended December 31, 2017 were $10,294,780 and $1,884,801 respectively.

11. Fiscal Sponsorship Activity

REDF is the Fiscal Sponsor for an organization called Impact Recyclers. The Fiscal Sponsorship activity for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Fiscal sponsor revenues	**$ 36,000**	$640
Fiscal sponsor expenses	**(17,358)**	-
Net fiscal sponsorship activity	**$ 18,642**	$640

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 *Government Auditing Standards*

To the Board of Directors
REDF

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 financial statements of REDF, which comprise the Statement of Financial Position as of December 31, 2018, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered REDF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of REDF's internal control. Accordingly, we do not express an opinion on the effectiveness of REDF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether REDF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 24, 2019