HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

REDF IMPACT INVESTING FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
REDF Impact Investing Fund

Report on the Financial Statements

We have audited the accompanying financial statements of REDF Impact Investing Fund (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2019, 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. 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 Impact Investing Fund as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Harrington Group

Oakland, California
May 19, 2020

REDF IMPACT INVESTING FUND

STATEMENT OF FINANCIAL POSITION
December 31, 2019

ASSETS		
Cash and cash equivalents	$	1,585,244
Accrued interest receivable		3,245
Loans receivable, net (Note 4)		728,115
TOTAL ASSETS	$	2,316,604
LIABILITIES AND NET ASSETS		
LIABILITIES		
Note payable (Note 6)	$	495,769
TOTAL LIABILITIES		495,769
NET ASSETS		
Without donor restrictions		1,820,835
TOTAL NET ASSETS		1,820,835
TOTAL LIABILITIES AND NET ASSETS	$	2,316,604

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

REDF IMPACT INVESTING FUND

STATEMENT OF ACTIVITIES
For the year ended December 31, 2019

REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS		
Contributions (Note 7)	$	**1,300,000**
Donated services (Note 2)		**191,366**
Investment income		**18,772**
Other income		**1,657**
TOTAL REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS		**1,511,795**
EXPENSES		
Program services		**252,519**
Management and general		**63,441**
TOTAL EXPENSES		**315,960**
CHANGE IN NET ASSETS		**1,195,835**
Transfer of assets from related party (Note 7)		**625,000**
NET ASSETS, BEGINNING OF YEAR		**-**
NET ASSETS, END OF YEAR	$	**1,820,835**

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

REDF IMPACT INVESTING FUND

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2019

	Program Services	Management and General	Total Expenses
Industry expertise and consultants	$ 119,702	$ -	**$ 119,702**
Program grants	100,000		**100,000**
Accounting, auditing, and legal	7,853	62,109	**69,962**
Provision for loan losses	11,500		**11,500**
Travel and meals	10,906		**10,906**
Conference and meetings	1,906		**1,906**
Insurance		1,087	**1,087**
Other	428		**428**
Technology		245	**245**
Office supplies	217		**217**
Postage and shipping	7		**7**
TOTAL FUNCTIONAL EXPENSES	**$ 252,519**	**$ 63,441**	**$ 315,960**

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

REDF IMPACT INVESTING FUND

STATEMENT OF CASH FLOWS
For the year ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$	1,195,835
Adjustments to reconcile change in net assets to net cash provided		
Transfer of assets from related party		625,000
Allowance for loan losses		81,500
Deferred loan origination costs		5,385
(Increase) decrease in operating assets:		
Accrued interest receivable		(3,245)
Loans receivable		(695,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,209,475
CASH FLOWS FROM INVESTING ACTIVITIES:		
New loan issued		(250,000)
Proceeds from repayments of loans receivable		130,000
NET CASH (USED) BY INVESTING ACTIVITIES		(120,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from new borrowings		495,769
NET CASH PROVIDED BY FINANCING ACTIVITIES		495,769
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,585,244
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		-
CASH AND CASH EQUIVALENTS, END OF YEAR	$	1,585,244

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

1. Organization

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

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

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

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

RIIF targets the following industries:

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

As of December 31, 2019:

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

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.

continued

2. Summary of Significant Accounting Policies, continued

Net Assets

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

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

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

Loans Receivable

Loans receivable are receivables from five recipients of loans serviced by RIIF under its Impact Lending program. Total loans receivable at December 31, 2019 was $728,115 (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. RIIF reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the years ended December 31, 2019, RIIF received donated services totaling $191,366, that satisfy the criteria for recognition.

continued

2. Summary of Significant Accounting Policies, continued

Concentration of Credit Risks

RIIF 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. RIIF had an account with a balance of $1,585,244 that was in excess of the FDIC insurance limit. RIIF has not incurred losses related to these investments.

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

RIIF is required to measure donated services at fair value. The specific techniques used to measure fair value for the financial statement element is described in the notes below that relate to the element.

Income Taxes

RIIF 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 RIIF in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. RIIF'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

RIIF 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.

Functional Allocation of Expenses

Costs of providing RIIF'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.

continued

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncement

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. ASC Topic 606 is effective for fiscal years beginning December 15, 2018 and RIIF has implemented its provisions for the year ended December 31, 2019.

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

3. Liquidity and Availability of Resources

The following reflects RIIF's financial assets as of the statement of financial position 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 quarterly basis.

Cash	$1,585,244
Loans receivable	728,115
Other accounts receivable	3,245
Financial assets at year-end	2,316,604
Less: Contractual or donor-imposed restrictions for time or purpose	(678,524)
Financial assets available to meet cash needs for general expenditures within one year	$1,638,080

4. Loans Receivable

Loans receivable consist of mission-related loans made by RIIF 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. RIIF has the ability and intent to hold the loans to maturity. As of December 31, 2019, 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.

RIIF 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 statement of financial position. As of December 31, 2019, RIIF had $5,385 net deferred origination fee revenues and unamortized direct costs recorded on the accompanying Statement of Financial Position.

Allowance for Loan Losses

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

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

The overall allowance may consist of:

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

As of the date of this report there have been no loan losses and no impairments have been identified. Due to the limited historical activity and credit quality of the existing loan portfolio, in 2019 RIIF 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 year ended December 31, 2019, the allowance for loan losses were $81,500.

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

4. Loans Receivable, continued

Loans receivable, principal outstanding	$815,000
Deferred origination fee revenues, net	(5,385)
Allowance for loan losses	(81,500)
Loans receivable, net of deferred fees and allowances	$728,115

The following table summarizes the allowance for loan losses:

Balance, beginning of year	$70,000
Provisions for loan losses during the year	11,500
Loans, charged-off	-
Loans receivable, net of deferred fees and allowances	$81,500

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

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

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

continued

5. Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total
Donated services	$ -	$191,366	$ -	**$191,366**

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).

6. Note Payable

RIIF had an unsecured note payable with a foundation in the amount of $495,769. The note bears an interest of 3% and requires interest only payments every quarter. The principal plus any accrued interest is due on December 2029.

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

REDF has guaranteed the full repayment of the above unsecured note payable for the first thirty-six months of its term.

7. Related Party Transactions

RIIF received cash contribution of $1,300,000 and transfer of assets of $625,000 from REDF during the year ended December 31, 2019. The transfer of net assets comprised of net loans receivable on the date of transfer.

RIIF received management and accounting services under a formal agreement with REDF. Management and accounting expenses for the year ended December 31, 2019 were $102,300.

RIIF's direct expenses that were paid by REDF during the year ended December 31, 2019 were $81,589.

8. Subsequent Events

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

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

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