

REDF IMPACT INVESTING FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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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, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited REDF Impact Investing Fund's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Oakland, California

June 2, 2021

REDF IMPACT INVESTING FUND

STATEMENT OF FINANCIAL POSITION

December 31, 2020

With comparative totals at December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2020	2019
ASSETS				
Cash and cash equivalents	\$ 2,165,079	\$ 162,500	\$ 2,327,579	\$ 1,585,244
Accrued interest receivable	10,719		10,719	3,245
Pledges receivable		62,500	62,500	-
Loans receivable, net (Note 4)	1,491,787		1,491,787	728,115
	\$ 3,667,585	\$ 225,000	\$ 3,892,585	\$ 2,316,604
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 100,000	\$ -	\$ 100,000	\$ -
Notes payable, net (Note 6)	1,744,197		1,744,197	495,769
	1,844,197	-	1,844,197	495,769
NET ASSETS				
Without donor restrictions	1,823,388		1,823,388	1,820,835
With donor restrictions		225,000	225,000	-
	1,823,388	225,000	2,048,388	1,820,835
	\$ 3,667,585	\$ 225,000	\$ 3,892,585	\$ 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, 2020

With comparative totals for the year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2020	2019
REVENUE AND SUPPORT				
Contributions	\$ 250	\$ 425,000	\$ 425,250	\$ 1,300,000
Donated services (Note 2)	325,288		325,288	191,366
Interest income	76,243		76,243	18,772
Other income	6,542		6,542	1,657
Net assets released from restrictions	200,000	(200,000)	-	-
TOTAL REVENUE AND SUPPORT	608,323	225,000	833,323	1,511,795
EXPENSES				
Program services	541,639		541,639	252,519
Management and general	64,131		64,131	63,441
TOTAL EXPENSES	605,770	-	605,770	315,960
CHANGE IN NET ASSETS	2,553	225,000	227,553	1,195,835
Transfer of assets from related party			-	625,000
NET ASSETS, BEGINNING OF YEAR	1,820,835		1,820,835	-
NET ASSETS, END OF YEAR	\$ 1,823,388	\$ 225,000	\$ 2,048,388	\$ 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, 2020

With comparative totals for the year ended December 31, 2019

	Program Services	Management and General	Total Expenses	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Industry expertise and consultants	\$ 339,706	\$ -	\$ 339,706	\$ 119,702
Provision for loan losses	183,390		183,390	11,500
Accounting, auditing, and legal		55,264	55,264	69,962
Other	16,960	191	17,151	428
Insurance		8,496	8,496	1,087
Dues and subscription	953		953	-
Conference and meetings	350		350	1,906
Travel and meals	280		280	10,906
Technology		180	180	245
Program grants			-	100,000
Office supplies			-	217
Postage and shipping			-	7
TOTAL 2020 FUNCTIONAL EXPENSES	<u>\$ 541,639</u>	<u>\$ 64,131</u>	<u>\$ 605,770</u>	
TOTAL 2019 FUNCTIONAL EXPENSES	<u>\$ 252,519</u>	<u>\$ 63,441</u>		<u>\$ 315,960</u>

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, 2020

With comparative totals for the year ended December 31, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 227,553	\$ 1,195,835
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Transfer of assets from related party	-	625,000
Allowance for loan losses	183,389	81,500
Deferred loan origination costs (fee income)	(13,166)	5,385
(Increase) decrease in operating assets:		
Accrued interest receivable	(7,474)	(3,245)
Pledges Receivable	(62,500)	-
Loans receivable	-	(695,000)
Increase (decrease) in operating liabilities:		
Accounts payable	100,000	-
	427,802	1,209,475
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
New loans issued	(959,200)	(250,000)
Proceeds from repayments of loans receivable	25,305	130,000
	(933,895)	(120,000)
NET CASH (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from new borrowings	1,248,428	495,769
	1,248,428	495,769
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	742,335	1,585,244
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,585,244	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,327,579	\$ 1,585,244

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

REDF IMPACT INVESTING FUND

NOTES TO 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.

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

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

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

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

As of December 31, 2020:

- **9** loans outstanding or closed to date
- **\$1.7M** in loan assets
- **3,655** people with barriers employed by RIIF’s Loan Portfolio to date

In 2020 RIIF also established an Advisory Council which consists of seven accomplished, diverse leaders who will provide expertise, thought partnership, and guidance for RIIF’s strategic, financial, social, and equity objectives. In addition to cross-industry expertise, these community leaders will support RIIF in reflecting the voice of social enterprise and the communities RIIF seeks to serve.

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

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

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, 2020 was \$1,491,787 (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, 2020, RIIF received donated services totaling \$325,288, that satisfy the criteria for recognition.

continued

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

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 \$2,327,579 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

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

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.

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 RIIF's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

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 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 quarterly basis.

Cash and cash equivalents	\$2,327,579
Pledges receivables	62,500
Loans receivable	1,491,787
Other accounts receivable	<u>10,719</u>
Financial assets at year-end	3,892,585
Less: Contractual or donor-imposed restrictions for time or purpose	<u>(1,003,404)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$2,889,181</u>

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, 2020, management believes most loans receivable share a similar risk profile, are homogenous in nature (i.e. employment social enterprise) and are therefore consolidated for disclosure purposes.

continued

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

4. Loans Receivable, continued

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, 2020, RIIF had \$7,781 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.).

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.

In 2020 RIIF continued this practice with the exception of reserving in full for one borrower who has missed one interest payment and whose principal matures in August 2021. RIIF believes that this borrower will be unable to repay the principal in full upon maturity, and has therefore expensed the full amount of this loan, \$100,000, in the event of any possible default. As of the year ended December 31, 2020 and 2019, the allowance for loan losses were \$264,889 and \$81,500, respectively.

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

4. Loans Receivable, continued

As of the year ended December 31, 2020 and the total loans receivable are summarized as follows:

Loans receivable, principal outstanding	\$1,748,895
Deferred origination fee revenues, net	7,781
Allowance for loan losses	<u>(264,889)</u>
Loans receivable, net of deferred fees and allowances	<u>\$1,491,787</u>

The following table summarizes the allowance for loan losses:

Balance, beginning of year	\$ 81,500
Provisions for loan losses during the year	183,389
Loans, charged-off	<u>-</u>
Loans receivable, net of deferred fees and allowances	<u>\$264,889</u>

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, 2020, RIIF disbursed one loan of \$250,000. Total amount of loans receivable as of December 31, 2020 of \$1,491,787 is expected to be collected as follows:

<u>Year ending December 31,</u>	
2021	\$ 531,477
2022	364,664
2023	253,420
2024	378,173
2025	174,688
Others	<u>46,473</u>
	1,748,895
Less: allowance for loan losses	(264,889)
Plus: deferred origination fee revenues, net	<u>7,781</u>
Loans receivable, net of deferred fees and allowances	<u>\$1,491,787</u>

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

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements

The table below shows transactions measured at fair value on a non-recurring basis during the year ended December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated services	\$ -	\$325,288	\$ -	\$325,288

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. Notes Payable

Notes payable at December 31, 2020 consist of the following:

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 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 foundation including interest at 3% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2026.	250,000
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 December 2030.	<u>1,000,000</u>
	1,750,000
Less: debt insurance costs	<u>(5,803)</u>
	<u>\$1,744,197</u>

Amortized maturities for the loans are as follows:

<u>Year ending December 31,</u>	
2021	\$ 30,000
2022	41,875
2023	42,500
2024	104,375
Thereafter	<u>1,525,447</u>
	<u>\$1,744,197</u>

continued

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

7. Commitments and Contingencies

Impact of COVID-19 Virus

Following the State of California COVID-19 protocols, RIIF has been conducting activities as usual with consideration of social distancing and remote work opportunities. The long-term impact of the COVID-19 virus on RIIF cannot be foreseen at this time and is not reflected in these financial statements.

8. Related Party Transactions

RIIF received management and accounting services under a formal agreement with REDF. Management and accounting expenses for the year ended December 31, 2020 were \$279,098.

9. Subsequent Events

Management has evaluated subsequent events through June 2, 2021, 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.