

REDF IMPACT INVESTING FUND

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
REDF Impact Investing Fund

Opinion

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, 2023, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of REDF Impact Investing Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT

continued

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of REDF Impact Investing Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about REDF Impact Investing Fund's ability to continue as a going concern for a reasonable period of time.

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

Other Matter

Report on Summarized Comparative Information

We have previously audited REDF Impact Investing Fund's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited 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 June 5, 2024, on our consideration of REDF Impact Investing Fund'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 Impact Investing Fund'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 Impact Investing Fund and Affiliate's internal control over financial reporting and compliance.

Harrington Group

Oakland, California

June 5, 2024

REDF IMPACT INVESTING FUND

STATEMENT OF FINANCIAL POSITION

December 31, 2023

With comparative totals at December 31, 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 9,098,361	\$ 7,317,920
Accounts receivable	2,917	-
Accrued interest receivable	25,638	10,665
Loans receivable, net (Note 5)	<u>1,951,458</u>	<u>1,759,442</u>
TOTAL ASSETS	<u>\$ 11,078,374</u>	<u>\$ 9,088,027</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ -	\$ 112,650
Accrued liabilities	7,680	4,250
Notes payable, net (Note 7)	8,006,810	6,809,312
Deferred revenue	<u>321,000</u>	<u>371,000</u>
TOTAL LIABILITIES	<u>8,335,490</u>	<u>7,297,212</u>
NET ASSETS		
Without donor restrictions	1,817,884	1,790,815
With donor restrictions	<u>925,000</u>	<u>-</u>
TOTAL NET ASSETS	<u>2,742,884</u>	<u>1,790,815</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,078,374</u>	<u>\$ 9,088,027</u>

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

REDF IMPACT INVESTMENT FUND

STATEMENT OF ACTIVITIES

For the year ended December 31, 2023

With comparative totals for the year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	2023	2022
REVENUE AND SUPPORT				
Contributions	\$ 104,404	\$ 1,225,000	\$ 1,329,404	\$ 58,127
Donated services (Notes 2, 4, and 6)	1,130,671		1,130,671	925,111
Investment income	315,565		315,565	190,398
Net assets released from restrictions	300,000	(300,000)	-	-
	1,850,640	925,000	2,775,640	1,173,636
EXPENSES				
Program services	1,706,752		1,706,752	1,333,960
Management and general	116,819		116,819	111,320
	1,823,571	-	1,823,571	1,445,280
CHANGE IN NET ASSETS	27,069	925,000	952,069	(271,644)
NET ASSETS, BEGINNING OF YEAR	1,790,815		1,790,815	2,062,459
NET ASSETS, END OF YEAR	\$ 1,817,884	\$ 925,000	\$ 2,742,884	\$ 1,790,815

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, 2023

With comparative totals for the year ended December 31, 2022

	Program Services	Management and General	Total Expenses	
			2023	2022
Industry expertise and consultants	\$ 1,019,337	\$ -	\$ 1,019,337	\$ 919,161
Provision for loan losses	470,686		470,686	279,566
Interest expense	185,149		185,149	117,983
Accounting, auditing, and legal		98,027	98,027	98,345
Insurance		17,506	17,506	11,057
Travel and meals	23,542		23,542	10,130
Other	3,086	1,046	4,132	2,103
Conference and meetings	2,602		2,602	2,473
Training and professional development	1,004		1,004	3,194
Dues and subscription	996		996	863
Events	350		350	165
Technology		240	240	240
TOTAL 2023 FUNCTIONAL EXPENSES	\$ 1,706,752	\$ 116,819	\$ 1,823,571	
TOTAL 2022 FUNCTIONAL EXPENSES	\$ 1,333,960	\$ 111,320		\$ 1,445,280

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

REDF IMPACT INVESTMENT FUND

STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

With comparative totals for the year ended December 31, 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 952,069	\$ (271,644)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Allowance for loan losses	470,687	20,058
Deferred loan origination costs (fee income)	29,928	2,613
(Increase) decrease in operating assets:		
Accounts receivable	(2,917)	26,323
Accrued interest receivable	(14,973)	12,931
Pledges receivable	-	62,500
Increase (decrease) in operating liabilities:		
Accounts payable	(112,650)	48,650
Accrued liabilities	3,430	-
Deferred revenue	(50,000)	250,000
	1,275,574	151,431
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursed loans	(1,608,123)	(734,375)
Proceeds from repayments of loans receivable	1,634,572	555,207
Loan receivable write off	-	259,508
Disbursed lines of credit	(1,498,000)	(2,150,710)
Proceeds from repayments of line of credits provided	778,920	1,869,790
	(692,631)	(200,580)
NET CASH (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from new borrowings	1,197,498	4,072,522
	1,197,498	4,072,522
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,780,441	4,023,373
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,317,920	3,294,547
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,098,361	\$ 7,317,920

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 lending program of REDF in 2017 and was incorporated in June 2019 as an independent nonprofit corporation under the laws of the State of California with its own Board of Directors. RIIF officially became certified as a Community Development Financial Institution (“CDFI”) in January 2022. Certification is a formal acknowledgement from the U.S. Treasury’s CDFI Fund that RIIF prioritizes financing to underserved communities. RIIF’s CDFI certification will unlock additional flexible capital to help catalyze growth in RIIF portfolio companies and create more jobs for overlooked talent nationwide. RIIF is disclosed as an affiliate of REDF in this report due to common board governance.

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, 2023:

- 26 loans closed to date totaling **\$7.9M**
- 15 loans in portfolio
 - **\$2.7M** in distributed loan assets on the balance sheet
 - **\$1.1M** in undistributed line of credit commitments
- **29,000+** people with barriers employed by RIIF’s borrowers 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.

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.

Loans Receivable

Loans receivable are receivables from recipients of loans serviced by RIIF under its Impact Lending program. Total loans receivable at December 31, 2023 was \$1,951,458 (see Note 5).

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.

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 (see Notes 4 and 6).

Concentration of Credit Risks

RIIF's priority is to place its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit. RIIF closely monitors the safety of any financial institution it banks with. As of December 31, 2023, two accounts, totaling \$9,091,055, were held by RIIF at one institution that included amounts that were 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.

continued

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 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.

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, 2022, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through June 5, 2024, 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.

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

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	\$ 9,098,361
Loans receivable	1,951,458
Other accounts receivable	<u>25,638</u>
Financial assets at year-end	11,075,457
Less: Contractual or donor-imposed restrictions for time or purpose	<u>(789,548)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$10,285,909</u>

4. In-kind Donations

For the year ended December 31, 2023, RIIF received donated services totaling \$1,130,671.

The donated services were provided by REDF. Part of the services provided included evaluating the applicability of every restricted grant on a periodic basis. The value of the in-kind donations is based on actual overhead and administrative costs paid by REDF less any restricted funding that RIIF received and which were reserved for RIIF operations.

The table below shows the utilization of the in-kind received by RIIF from REDF for the year ended December 31, 2023 less adjustments.

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Foundation managed investments	\$1,019,337	\$ -	\$1,019,337
Accounting, auditing, and legal		62,228	62,228
Insurance		17,506	17,506
Travel and meals	23,542		23,542
Training and professional development	1,004		1,004
Conferences and meetings	2,602		2,602
Dues and subscriptions	1,225		1,225
Technology		240	240
Other	2,637		2,637
Events	350		350
Total in-kind donation	<u>\$1,050,697</u>	<u>\$79,974</u>	<u>\$1,130,671</u>

continued

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

5. Loans Receivable

Loans receivable consist of mission-related loans made by RIIF to mission-based organizations. The loans are generally collateralized by mortgages, business assets, guarantees and pledges from nonprofit organizations. Loans receivable are stated at the principal amount outstanding net of the allowance for loan losses, deferred origination fee revenues and unamortized direct costs. Interest income on a loan is accrued on the outstanding principal at the loan's stated interest rate and accrued interest income is classified as other receivables. RIIF has the ability and intent to hold the loans to maturity. As of December 31, 2023 and 2022, management believes all loans receivable, are homogenous in nature (i.e. employment social enterprise) and are therefore consolidated for disclosure purposes.

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, 2023 and 2022, RIIF had \$11,646 and \$18,282 respectively in 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.).

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

continued

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

5. Loans Receivable, continued

As of the years ended December 31, 2023 and 2022, the allowance for loan losses were \$764,149 and \$293,462 respectively.

As of the years ended December 31, 2023 and 2022 the total loans receivable are summarized as follows:

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

The following table summarizes the allowance for loan losses:

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

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

<u>Year ending December 31,</u>	
2024	\$1,845,214
2025	452,090
2026	165,708
2027	114,097
2028	<u>150,145</u>
	2,727,253
Less: allowance for loan losses	(764,149)
Less: deferred origination fee revenues, net	<u>(11,646)</u>
Loans receivable, net of deferred fees and allowances	<u>\$1,951,458</u>

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 accounts receivable, inventory, equipment and guarantees. Collateral requirements for each borrower may vary according to the specific credit underwriting, terms and structure of loans funded.

continued

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

5. Loans Receivable, continued

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.

6. Fair Value Measurements

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated services	<u>\$ -</u>	<u>\$1,130,671</u>	<u>\$ -</u>	<u>\$1,130,671</u>

The fair value of donated services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

7. Notes Payable

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

An unsecured note payable with a foundation including interest at 2% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2029.	\$2,000,000
An unsecured note payable with a foundation including interest at 3% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2030.	2,000,000
An unsecured note payable with a health provider including interest at 3% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2031.	1,000,000
An unsecured note payable with a university including interest at 1% payable in every quarter. The principal amount plus accrued interest to be paid off in year 2025.	1,000,000
Eight unsecured notes payable with individuals as brokered by an impact investment management firm including interest at 3%, payable in every quarter. The principal amounts plus accrued interests to be paid off in year 2026.	800,000

continued

REDF IMPACT INVESTING FUND

NOTES TO FINANCIAL STATEMENTS

7. Notes Payable, continued

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

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

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

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

Less: debt issuance costs 8,014,164
(7,354)
\$8,006,810

Amortized maturities for the loans are as follows:

<u>Year ending December 31,</u>	
2024	\$ 319,228
2025	1,385,186
2026	303,099
2027	517,295
2028	1,000,000
Thereafter	<u>4,489,356</u>
	<u>\$8,014,164</u>

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, 2023 were \$874,455.

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 Impact Investing Fund

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 Impact Investing Fund (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2023, 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 June 5, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered REDF Impact Investing Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of REDF Impact Investing Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of REDF Impact Investing Fund'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 or significant deficiencies may exist that were not identified.

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***
continued

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether REDF Impact Investing Fund'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Oakland, California
June 5, 2024