

H E A L Y A N D A S S O C I A T E S

C E R T I F I E D P U B L I C A C C O U N T A N T

SOCIAL IMPACT FUND
(A NONPROFIT PUBLIC BENEFIT CORPORATION)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
NOTES TO FINANCIAL STATEMENTS	7-11

INDEPENDENT AUDITOR'S REPORT

March 2, 2017

Board of Directors
Social Impact Fund
Los Angeles, California

I have audited the financial statements of Social Impact Fund (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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, I 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.

Board of Directors
Social Impact Fund
Page Two

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Social Impact Fund as of December 31, 2016, 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.

Healy and Associates
Healy and Associates
Concord, CA

SOCIAL IMPACT FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (Notes B & C)	\$ 173,332	\$ 2,064,946	\$ 2,238,278
Grants and accounts receivable	<u>15,031</u>	<u>800,000</u>	<u>815,031</u>
TOTAL ASSETS	<u>\$ 188,363</u>	<u>\$ 2,864,946</u>	<u>\$ 3,053,309</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 144,060	\$ -	\$ 144,060
Line of credit (Note E)	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>144,060</u>	<u>-</u>	<u>144,060</u>
COMMITMENTS AND CONTINGENCIES (Note G)			
NET ASSETS			
Unrestricted	44,303		44,303
Temporarily restricted (Note F)	<u>-</u>	<u>2,864,946</u>	<u>2,864,946</u>
TOTAL NET ASSETS	<u>44,303</u>	<u>2,864,946</u>	<u>2,909,249</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 188,363</u>	<u>\$ 2,864,946</u>	<u>\$ 3,053,309</u>

See Notes to Financial Statements

SOCIAL IMPACT FUND
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Support:			
Foundation	\$ -	\$ 3,125,500	\$ 3,125,500
Donation and contributions		544,178	544,178
Total Support	<u>-</u>	<u>3,669,678</u>	<u>3,669,678</u>
Revenue:			
Events		1,274,935	1,274,935
Management fees	219,600		219,600
Merchandise sales	600		600
Interest and dividends	11,883		11,883
Gain on investments	32,915		32,915
Total Revenue	<u>264,998</u>	<u>1,274,935</u>	<u>1,539,933</u>
Net assets released from restriction	<u>4,241,152</u>	<u>(4,241,152)</u>	<u>-</u>
Total Revenue and Support	<u>4,506,150</u>	<u>703,461</u>	<u>5,209,611</u>
EXPENDITURES			
Program Services	4,241,751		4,241,751
Administrative Services	173,948		173,948
Total Expenses	<u>4,415,699</u>	<u>-</u>	<u>4,415,699</u>
Change in Net Assets	90,451	703,461	793,912
NET ASSETS, beginning of year	<u>(46,148)</u>	<u>2,161,485</u>	<u>2,115,337</u>
NET ASSETS, end of year	<u>\$ 44,303</u>	<u>\$ 2,864,946</u>	<u>\$ 2,909,249</u>

See Notes to Financial Statements

SOCIAL IMPACT FUND
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services	Administrative Services	Total
EXPENSES:			
Grants paid	\$ 757,369	\$ -	\$ 757,369
Professional services	711,099	-	711,099
Event production	609,043	-	609,043
Contracted services	315,402	8,500	323,902
Film production	317,631	-	317,631
Program management	267,360	-	267,360
Fiscal sponsorship fee	219,600	-	219,600
Artist fees	162,490	-	162,490
Travel	130,256	1,323	131,579
Digital and video content	120,654	-	120,654
Creative Director	114,500	-	114,500
Program and Policy Director	110,433	-	110,433
Content	109,414	-	109,414
Management services	-	75,000	75,000
Accounting services	9,000	41,878	50,878
Brand logo ID and design	49,429	-	49,429
Miscellaneous expenses	44,843	179	45,022
Social media	39,614	-	39,614
Public relations	36,500	-	36,500
Website maintenance	24,314	5,171	29,485
Listening and learning tour	28,463	-	28,463
Marketing	25,537	-	25,537
Legal expenses	7,878	9,972	17,850
State filing fees	-	13,172	13,172
Meetings, conferences & events	7,764	806	8,570
Insurance	-	7,405	7,405
Training and seminars	6,572	250	6,822
Investment fees	-	6,649	6,649
Office rent	6,000	-	6,000
Postage and shipping	4,880	985	5,865
Merchant and bank fees	2,924	1,730	4,654
General meeting expenses	1,833	59	1,892
Office expenses	949	-	949
Donor snap	-	869	869
	<u>\$ 4,241,751</u>	<u>\$ 173,948</u>	<u>\$ 4,415,699</u>

See Notes to Financial Statements

SOCIAL IMPACT FUND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 793,912
CHANGES IN ASSETS AND LIABILITIES:	
Accounts receivable	(140,031)
Accounts payable and accrued expenses	<u>98,713</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>752,594</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment redemptions/conversion to cash	<u>772,745</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>772,745</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,525,339
CASH AND CASH EQUIVALENTS, beginning of year	<u>712,939</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,238,278</u></u>

See Notes to Financial Statements

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE A – GENERAL

Operations

Social Impact Fund (the Organization) is a California nonprofit public benefit corporation, founded in 2013 with its principal office in the state of California. The Organization provides a legal structure under which charitable programs may operate, or acts as fiscal sponsor for groups waiting on IRS 501(c)(3) determination. The sponsored programs work to advance social good and make a positive difference in the world-at-large. During the year ended December 31, 2014, the Organization began operations.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Organization maintains its accounting records on the accrual basis.

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

Financial Statement Presentation

Financial statement presentation follows the guidance of the Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under this standard, the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Organization has no permanently restricted net assets at December 31, 2016.

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

In accordance with FASB ASC Section 958-605-25, *Not-For-Profit Entities—Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and nature of grantor restrictions. Contributions are recorded as restricted support if they are received with grantor stipulations that limit the use of the contributed assets. When a grantor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Accounting principles generally accepted in the United States of America require that contributions be recorded at the present value of the estimated future cash flows. However, the effect of not recording the contributions at the present value of the estimated future cash flows is not materially different from the result that would have been obtained had the contribution been recorded at the present value of the estimated future cash flows.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts and in time deposits with maturities of three months or less as well as cash on hand. The Organization may occasionally maintain cash on deposit at banks in excess of the Federal Deposit Insurance Corporation limit (See Note C).

Fair Value Measurements

The Organization's financial instruments measured at fair value include investments. The carrying amount of these financial instruments has been estimated by management to approximate fair value. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." When determining the inputs used to measure fair value, the highest priority is given to observable inputs and lowest priority is given to unobservable inputs. Accounting Standards Codification (ASC) 820-10, *Fair Value Measurement*, establishes a fair value hierarchy to prioritize the inputs used in measuring fair value.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1— Quoted prices for identical assets and liabilities in active markets.

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2—Observable inputs other than Level 1, which quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets and liabilities.

The Organization measured the fair value of investments during the year using Level 1 and Level 2 inputs (See Note D).

Income Tax Status

Social Impact Fund has received exempt status under section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the State of California Revenue and Taxation Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS along with related state filings. The Organization has no unrelated business income. Management has analyzed tax positions taken by the Organization and has concluded that, as of December 31, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization's returns are subject to examination by federal and state taxing authorities generally for three years after they are filed.

Functional Allocation of Expenses

The costs for providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE C – CONCENTRATIONS

Accounts receivable at December 31, 2016 are due from three funders (38%, 31% and 31%). Collection of these funds is expected. No allowance for doubtful accounts has been accrued by the Organization.

At December 31, 2016, the Organization had \$1,617,317 in accounts at a financial institution exceeding insured limits. The Organization has not experienced any losses in such accounts and believes that it is not currently exposed to any significant risks of loss. However, the liquidity of the financial institution is monitored by management.

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE D – INVESTMENTS

The Organization exited all investments during the year ended December 31, 2016 and converted the funds to cash, which are held at a financial institution.

Investments activity consists of the following:

Beginning balance	\$ 772,745
Interest and dividends	11,883
Investment fees	(6,649)
Realized gains	32,915
Purchases, sales, issuances and settlements (net)	<u>(810,894)</u>
Ending Balance at December 31, 2016	<u>\$ -</u>

NOTE E – PORTFOLIO LOAN ACCOUNT AGREEMENT

The Organization entered into a Portfolio Loan Account Agreement during the year ended December 31, 2015 with Morgan Stanley. Under the terms of the agreement, the Organization could borrow up to \$250,000, bearing an interest rate in stages based on borrowing, from 2.25% up to 5%. The loan payable is secured by the Organization's Morgan Stanley accounts. At December 31, 2016, there was no outstanding balance.

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available at December 31, 2016 as follows:

Sponsored programs	<u>\$ 2,864,946</u>
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Net assets were released from restriction as follows:

	<u>Balance at December 31, 2015</u>	<u>Awarded</u>	<u>Expended or Released</u>	<u>Balance at December 31, 2016</u>
Sponsored programs	<u>\$2,161,485</u>	<u>\$4,944,613</u>	<u>(\$4,241,152)</u>	<u>\$2,864,946</u>

NOTE G – COMMITMENTS AND CONTINGENCIES

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE H – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016, the Organization engaged the management services of Propper Daley, a social impact agency. Two of the principles of Propper Daley were Board members during the year. The fees paid for these services amounted to \$330,090.

In addition, the Organization engaged a firm to develop its web site. The firm is owned by a member of the Board of Directors. Total fees paid during the year ended December 31, 2016 was \$5,000.

NOTE I – SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through March 2, 2017, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2016 that required recognition or disclosure in the financial statements.