



SOCIAL IMPACT · FUND ·

**FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

SOCIAL IMPACT FUND
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December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Social Impact Fund

Report on the Financial Statements

We have audited the accompanying financial statements of Social Impact Fund (the "Organization"), which comprise the statements of financial position as of December 31, 2018, 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.

Auditor's 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 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 Organization'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 Organization'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 the Organization as of December 31, 2018, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of the Organization, as of and for the year ended December 31, 2017, were audited by other auditors, whose report, dated March 5, 2018, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Singer Lewak LLP".

April 5, 2019

SOCIAL IMPACT FUND
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

ASSETS		2018	2017
Assets			
Cash and cash equivalents	\$	2,853,682	\$ 2,536,225
Grants and contributions receivable		325,000	431,445
Investments		286,612	812,361
Prepaid expenses		15,432	4,212
Total assets	\$	3,480,726	\$ 3,784,243
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$	142,017	\$ 193,670
Accounts payable, related party		233,983	4,192
Total liabilities		376,000	197,862
Net assets			
Without donor restrictions		202,482	130,179
With donor restrictions		2,902,244	3,456,202
Total net assets		3,104,726	3,586,381
Total liabilities and net assets	\$	3,480,726	\$ 3,784,243

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

SOCIAL IMPACT FUND
STATEMENTS OF ACTIVITIES
Year Ended December 31, 2018
(With Summarized Totals for the Year Ended 2017)

	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue, support, and gains				
Foundation grants	\$ -	\$ 1,588,357	\$ 1,588,357	\$ 1,977,000
Donations and contributions	-	1,716,352	1,716,352	1,880,000
Management fees and retainers	196,147	-	196,147	234,436
Net investment return	30,861	-	30,861	6,845
Gross special events revenue	-	505,099	505,099	412,373
Less cost of direct benefits to donors	-	(338,118)	(338,118)	(275,929)
Net special event revenue	-	166,981	166,981	136,444
Net assets released from restrictions	4,025,648	(4,025,648)	-	-
Total revenue, support, and gains	<u>4,252,656</u>	<u>(553,958)</u>	<u>3,698,698</u>	<u>4,234,725</u>
Expenses				
Program services	3,972,854	-	3,972,854	3,339,185
Management and general	154,705	-	154,705	155,556
Fundraising	52,794	-	52,794	62,852
Total expenses	<u>4,180,353</u>	<u>-</u>	<u>4,180,353</u>	<u>3,557,593</u>
Change in net assets	72,303	(553,958)	(481,655)	677,132
Net assets, beginning of year	<u>130,179</u>	<u>3,456,202</u>	<u>3,586,381</u>	<u>2,909,249</u>
Net assets, end of year	<u>\$ 202,482</u>	<u>\$ 2,902,244</u>	<u>\$ 3,104,726</u>	<u>\$ 3,586,381</u>

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

SOCIAL IMPACT FUND
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018
(With Summarized Totals for the Year Ended 2017)

	2018				2017 Total
	Program Services	Management and General	Fundraising	Total	
Expenses					
Grants paid	\$ 1,205,906	\$ -	\$ -	\$ 1,205,906	\$ 1,151,497
Professional fees and contract services	1,292,638	11,472	390,912	1,695,022	1,865,830
Programmatic expenses	774,278	300	-	774,578	403,168
Program and management services	571,926	96,000	-	667,926	174,000
Conferences and travel	103,411	5,341	-	108,752	155,235
Other expenses	24,695	41,592	-	66,287	83,792
Total expenses	3,972,854	154,705	390,912	4,518,471	3,833,522
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	(338,118)	(338,118)	(275,929)
Total expenses included in the expense section on the statement of activities	\$ 3,972,854	\$ 154,705	\$ 52,794	\$ 4,180,353	\$ 3,557,593

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

SOCIAL IMPACT FUND
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (481,655)	\$ 677,132
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized loss on investments	8,532	1,565
Changes in operating assets and liabilities:		
Grants and accounts receivable	106,445	383,586
Prepaid expenses	(11,220)	(4,212)
Accounts payable	(51,653)	49,610
Accounts payable, related party	229,791	4,192
	(199,760)	1,111,873
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchases of investments	(327,623)	(813,926)
Proceeds from sales of investments	844,840	-
	517,217	(813,926)
Net cash provided by (used in) investing activities		
Net increase in cash and cash equivalents	317,457	297,947
Cash and cash equivalents, beginning of year	2,536,225	2,238,278
Cash and cash equivalents, end of year	\$ 2,853,682	\$ 2,536,225

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

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 – ORGANIZATION

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 a fiscal sponsor for groups awaiting IRS 501(c)(3) determination. The sponsored programs work to advance social good and make a positive difference in the world at large.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

The accompanying 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented, and the 2017 audited financial statements included \$592,675 of donor-restricted contributions for programs which were included on the statements of activities as special event revenue. These amounts have been reclassified on the statements of activities, reducing special event revenue and increasing donations and contributions. The reclassifications had no impact on previously reported net assets.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments purchased with maturities of three months or less, which are neither held for, nor restricted by, donors for long-term purposes, to be cash and cash equivalents.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. Based on management's assessment at December 31, 2018 and 2017, no allowance has been recorded.

Investments

Investments in bonds are measured at fair value, and certificates of deposit are stated at amortized cost in the accompanying statements of financial position. Investment income (including interest and dividends) and unrealized gains and losses have been reflected in the statements of activities as increases or decreases in net assets without donor restrictions, unless their use has been restricted by donors.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, investments and grants, and contributions receivable. At times, amounts on deposit may exceed insured limits, or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. The Organization has developed long-term relationships with many of its grantors and continually evaluates their financial positions to determine the risk of uncollectible grants. As of December 31, 2018, two funders comprised 100% of the Organization's outstanding receivables balance. As of December 31, 2017, two funders comprised 91% of the Organization's outstanding receivables balance.

Net Assets

Net assets and revenue, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net assets 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions

Grants and contributions received on behalf of projects are recorded as with donor restricted support when they are awarded and are then reclassified to without donor restrictions when the funds are spent.

Unconditional promises to give are recognized as revenues in the period received as an asset, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. With respect to unconditional promises to give, the Organization routinely assesses the financial strength of its grantors and believes that the related credit risk exposure is limited.

Management Fees and Retainers

Management fees and retainers are received from the programs for contracts to provide back-office and administrative duties. These fees are contractually based on the amount of contributions and other revenues received by each program for each twelve-month period and are recognized as earned.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or service. Expenses that are associated with more than one program or supporting service are allocated based on estimates, as determined by management.

Grants Paid

Grants paid represent amounts awarded to other Organizations and if unconditional, are recorded when awarded.

Income Taxes

The Organization is exempt from federal and state income and excise taxes, and California franchise taxes, as an organization described under Section 501(c)(3) of the Internal Revenue Code and related state codes. However, the Organization is subject to any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, and in the opinion of management, is not material to the financial statements taken as a whole.

During the years ended December 31, 2018 and 2017, the Organization performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements, or which may have an effect on its tax-exempt status.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, and permits the use of either a full retrospective, or retrospective with cumulative effect, transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 will be effective for the Organization for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of adoption of this standard on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions, including business entities. ASU 2018-08 will be effective for resource recipients' annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption of the amendments in this ASU is permitted. The Organization is currently evaluating the impact of the adoption of this guidance on its financial statements.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions" and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Management adopted the ASU in 2018 and has opted to not disclose liquidity and availability information for 2017 as permitted under the ASU in the year of adoption. In addition, management changed its presentation of net asset classes and expanded the footnote disclosures, as required by the ASU.

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year, comprise the following:

Cash and cash equivalents	\$ 2,853,682
Grants and contributions receivable	325,000
Investments	<u>286,612</u>
	<u>\$ 3,465,294</u>

The Organization receives significant contributions with donor restrictions to be used in accordance with the associated purpose, and considers contributions restricted for programs which are ongoing, major, and central to the annual operations to be available to meet cash needs for general expenditures. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$773,000, which it could draw upon.

NOTE 4 – GRANTS AND ACCOUNTS RECEIVABLE

At June 30, 2018 and 2017, the Organization had receivables that represented unconditional promises to donate funds by various foundations for use by the programs. Grants and accounts receivable due in less than one year were \$325,000 and \$431,445 at December 31, 2018 and 2017, respectively.

NOTE 5 – INVESTMENTS

The Organization reports certain assets and liabilities at fair value in the financial statements. U.S. GAAP defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability, based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5 – INVESTMENTS (Continued)

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

The fair value hierarchy also requires an entity to maximize the use of observable inputs, and minimize the use of unobservable inputs, when measuring fair value, which is the Organization’s policy. For the years ended December 31, 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The following is a description of the valuation methodologies used for instruments measured at fair value:

- *Corporate Bonds* – The fair value of these investments is the market value based on quoted market prices. They are classified within Level 2 of the fair value hierarchy.
- *Certificates of Deposit* – The fair value of alternative asset funds is based on market values of similar observable or underlying assets. They are classified within Level 2 of the fair value hierarchy.

The following table summarizes the Organization’s investments measured at fair value on a recurring basis at December 31, 2018:

Assets	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 86,618	\$ -	\$ 86,618
Certificates of deposit	-	199,994	-	199,994
Total	\$ -	\$ 286,612	\$ -	\$ 286,612

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 – INVESTMENTS (Continued)

The following table summarizes the Organization’s investments measured at fair value on a recurring basis at December 31, 2017:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ -	\$ 115,615	\$ -	\$ 115,615
Certificates of deposit	-	<u>696,746</u>	-	<u>696,746</u>
Total	\$ -	\$ <u>812,361</u>	\$ -	\$ <u>812,361</u>

NOTE 6 – LINE OF CREDIT

The Organization has a line of credit with a bank. Under the terms of the agreement, the Organization can borrow up to \$773,000, bearing an interest rate of 3%, plus corresponding portfolio loan account index (3.01% and 2.11% at December 31, 2018 and 2017, respectively). The loan is secured by the Organization’s accounts at the bank and has no maturity date. At December 31, 2018 and 2017, there were no outstanding balances.

NOTE 7 – 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.

NOTE 8 – NET ASSETS

Net Assets with Donor Restrictions

As of December 31, 2018 and 2017, net assets with donor restrictions consist of:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose	\$ 2,577,244	\$ 3,024,757
Subject to passage of time	<u>325,000</u>	<u>431,445</u>
	<u>\$ 2,902,244</u>	<u>\$ 3,456,202</u>

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – RELATED PARTY TRANSACTIONS

The Organization utilizes the management services of a social impact agency. Two of the principles of the agency are board members. During the years ended December 31, 2018 and 2017, fees paid for these services amounted to \$614,085 and \$348,527, respectively; and amounts included in accounts payable – related party amounted to \$233,983 and \$4,192, respectively.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated significant events or transactions that have occurred since the statements of financial position date and through April 5, 2019, which represents the date the financial statements were available for issuance.