



SOCIAL IMPACT · FUND ·

**FINANCIAL REPORT
DECEMBER 31, 2019**

SOCIAL IMPACT FUND

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December 31, 2019

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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, 2019 and 2018, the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2019 and 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Organization adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, during the year ended December 31, 2019. Our opinion is not modified with respect to these matters.

Singer Lewak LLP

May 22, 2020

SOCIAL IMPACT FUND
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

ASSETS		2019	2018
Assets			
Cash and cash equivalents		\$ 2,519,495	\$ 2,853,682
Grants and contributions receivable		285,790	325,000
Investments		786,549	286,612
Prepaid insurance		4,500	15,432
Total assets		\$ 3,596,334	\$ 3,480,726
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable		\$ 518,001	\$ 142,017
Accounts payable, related party		-	233,983
Grants payable		320,000	-
Total liabilities		838,001	376,000
Net assets			
Without donor restrictions		372,623	183,570
With donor restrictions		2,385,710	2,921,156
Total net assets		2,758,333	3,104,726
Total liabilities and net assets		\$ 3,596,334	\$ 3,480,726

See notes to financial statements.

SOCIAL IMPACT FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains			
Foundation grants	\$ -	\$ 3,549,870	\$ 3,549,870
Donations and contributions	180	3,931,837	3,932,017
Donated goods and services	-	472,699	472,699
Management fees and retainers	376,756	-	376,756
Net investment return	34,656	-	34,656
Conference registration	-	109,294	109,294
Gross special events revenue	-	708,050	708,050
Less cost of direct benefits to donors	-	(379,892)	(379,892)
Net special event revenue	-	328,158	328,158
Net assets released from restrictions	<u>8,927,294</u>	<u>(8,927,294)</u>	<u>-</u>
Total revenue, support, and gains	<u>9,338,886</u>	<u>(535,436)</u>	<u>8,803,450</u>
Expenses			
Program services	8,770,104	-	8,770,104
Management and general	222,548	-	222,548
Fundraising	<u>157,190</u>	<u>-</u>	<u>157,190</u>
Total expenses	<u>9,149,842</u>	<u>-</u>	<u>9,149,842</u>
Change in net assets	189,044	(535,436)	(346,392)
Net assets, beginning of year	<u>183,579</u>	<u>2,921,146</u>	<u>3,104,725</u>
Net assets, end of year	<u><u>\$ 372,623</u></u>	<u><u>\$ 2,385,710</u></u>	<u><u>\$ 2,758,333</u></u>

See notes to financial statements.

SOCIAL IMPACT FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains			
Grants	\$ -	\$ 1,588,357	\$ 1,588,357
Donations and contributions	-	1,716,352	1,716,352
Management fees and retainers	196,147	-	196,147
Net investment return	30,861	-	30,861
Gross special events revenue	-	505,099	505,099
Less cost of direct benefits to donors	-	(338,118)	(338,118)
Net special event revenue	-	166,981	166,981
Net assets released from restrictions	<u>4,006,736</u>	<u>(4,006,736)</u>	<u>-</u>
Total revenue, support, and gains	<u>4,233,744</u>	<u>(535,046)</u>	<u>3,698,698</u>
Expenses			
Program services	3,953,942	-	3,953,942
Management and general	173,617	-	173,617
Fundraising	<u>52,794</u>	<u>-</u>	<u>52,794</u>
Total expenses	<u>4,180,353</u>	<u>-</u>	<u>4,180,353</u>
Change in net assets	53,391	(535,046)	(481,655)
Net assets, beginning of year	<u>130,179</u>	<u>3,456,202</u>	<u>3,586,381</u>
Net assets, end of year	<u>\$ 183,570</u>	<u>\$ 2,921,156</u>	<u>\$ 3,104,726</u>

See notes to financial statements.

SOCIAL IMPACT FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2019

	Program Services	Management and General	Fundraising	Total
Grants paid	\$ 1,653,287	\$ -	\$ -	\$ 1,653,287
Professional fees and contract services	4,210,273	58,451	537,082	4,805,806
Programmatic expenses	960,166	5,153	-	965,319
Program and management services	1,370,261	110,500	-	1,480,761
Conferences and travel	361,015	5,164	-	366,179
Other expenses	215,102	43,280	-	258,382
 Total expenses by function	 8,770,104	 222,548	 537,082	 9,529,734
 Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(379,892)	(379,892)
 Total expenses included in the expense section on the statement of activities	 <u>\$ 8,770,104</u>	 <u>\$ 222,548</u>	 <u>\$ 157,190</u>	 <u>\$ 9,149,842</u>

See notes to financial statements.

SOCIAL IMPACT FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Grants paid	\$ 1,205,906	\$ -	\$ -	\$ 1,205,906
Professional fees and contract services	1,256,638	47,472	390,912	1,695,022
Programmatic expenses	774,278	300	-	774,578
Program and management services	571,926	96,000	-	667,926
Conferences and travel	103,411	5,341	-	108,752
Other expenses	41,783	24,504	-	66,287
Total expenses by function	3,953,942	173,617	390,912	4,518,471
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(338,118)	(338,118)
Total expenses included in the expense section on the statement of activities	\$ 3,953,942	\$ 173,617	\$ 52,794	\$ 4,180,353

See notes to financial statements.

SOCIAL IMPACT FUND
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (346,392)	\$ (481,655)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized loss on investments	1,612	8,532
Changes in operating assets and liabilities:		
Grants and contributions receivable	39,210	106,445
Prepaid expenses	10,932	(11,220)
Accounts payable	375,983	(51,653)
Accounts payable, related party	(233,983)	229,791
Grants payable	320,000	-
Net cash provided by (used in) operating activities	167,362	(199,760)
Cash flows from investing activities		
Purchases of investments	(786,549)	(327,623)
Proceeds from sales of investments	285,000	844,840
Net cash provided by (used in) investing activities	(501,549)	517,217
Net increase (decrease) in cash and cash equivalents	(334,187)	317,457
Cash and cash equivalents, beginning of year	2,853,682	2,536,225
Cash and cash equivalents, end of year	\$ 2,519,495	\$ 2,853,682

See notes to financial statements.

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.

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.

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, 2019 and 2018, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Payable

Grants awarded but not yet paid out to the sponsored organizations are included as part of grants payable.

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, 2019, one funder comprised 87% of the Organization's outstanding receivables balance. As of December 31, 2018, two funders comprised 100% 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.

Revenue and Revenue Recognition

The Organization recognizes management fees and retainers when the performance obligations of services are provided to sponsored organizations. Fees are charged based on funds raised or earned by the sponsored organization and are recognized on a monthly basis as a percentage of those funds raised. The performance obligation of raising funds is simultaneously received and consumed by the sponsored organizations; therefore, the revenue is recognized ratably over the period services are provided.

The Organization recognizes revenue from ticket sales at the time of admission. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition (Continued)

Conditional promises to give are recognized when the conditions on which they depend are 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.

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, 2019 and 2018, 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.

Change in Accounting Principle

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. The ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Effective January 1, 2019, the Company adopted ASC 606 using the modified retrospective transition method. The adoption of ASC 606 did not have a material impact on the Organization's statement of activities or financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle

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. The Organization adopted the standard during the year ended 2019 with minimal impact to the financial statements.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The FASB subsequently issued ASU 2019-11 to clarify the new credit impairment guidance. The ASU is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Organization does not intend to early adopt. The Organization is currently evaluating the impact of adopting this new guidance on its financial statements and does not expect the impact to be significant.

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:

	2019	2018
Cash and cash equivalents	\$ 2,519,495	\$ 2,853,682
Grants and contributions receivable	285,790	325,000
Investments	786,549	286,612
	\$ 3,591,834	\$ 3,465,294

NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES (Continued)

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 – 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:

- 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, 2019 and 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent.

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 4 – INVESTMENTS (Continued)

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, 2019:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	<u>\$ -</u>	<u>\$ 786,548</u>	<u>\$ -</u>	<u>\$ 786,548</u>

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

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

NOTE 5 – 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 3.01% at December 31, 2019 and 2018, respectively). The loan is secured by the Organization’s accounts at the bank and has no maturity date. At December 31, 2019 and 2018, there were no outstanding balances.

SOCIAL IMPACT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2019 and 2018, net assets with donor restrictions consist of:

	2019	2018
Subject to expenditure for specified purpose	\$ 2,135,710	\$ 2,596,156
Subject to passage of time	250,000	325,000
	\$ 2,385,710	\$ 2,921,156

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors. For the years ended December 31, 2019 and 2018, net assets of \$8,613,998 and \$3,704,766, respectively, were released from restrictions by incurring expenses satisfying the specified purpose restriction. For the years ended December 31, 2019 and 2018, net assets of \$325,000 and \$320,882, respectively, were released from restrictions by incurring expenses satisfying the passage of time restriction.

NOTE 7 – 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, 2019 and 2018, fees paid for these services amounted to \$1,112,801 and \$614,085, respectively; and amounts included in accounts payable – related party amounted to \$0 and \$233,983, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated significant events or transactions that have occurred since the statements of financial position date and through May 22 2020, which represents the date the financial statements were available for issuance.

NOTE 8 – SUBSEQUENT EVENTS (Continued)

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization.