

Sustainable Communities Fund

Financial Statements

December 31, 2017



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sustainable Communities Fund
Los Angeles, California

We have audited the accompanying financial statements of Sustainable Communities Fund (a California nonprofit corporation) (the "SCF"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (the "U.S."); 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 U.S. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sustainable Communities Fund as of December 31, 2017, 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 U.S.

Armanino LLP

Armanino^{LLP}
Los Angeles, California

May 22, 2018

Sustainable Communities Fund
Statement of Financial Position
December 31, 2017

ASSETS

Cash	\$ 746,377
Contributions receivable, net of discount	3,241,171
Program-related investment assets	1,095,000
Mission-related investment assets	350,000
Interest receivable	<u>10,691</u>
Total assets	<u>\$ 5,443,239</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 41,192
Deferred revenue	<u>63,560</u>
Total liabilities	<u>104,752</u>
Net assets	
Unrestricted	2,097,316
Temporarily restricted	<u>3,241,171</u>
Total net assets	<u>5,338,487</u>
Total liabilities and net assets	<u>\$ 5,443,239</u>

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

Sustainable Communities Fund
Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support			
Contributions			
Contributions, net	\$ 163,399	\$ 100,907	\$ 264,306
Grants	51,439	-	51,439
Net assets released from restriction	241,548	(241,548)	-
Total contributions	456,386	(140,641)	315,745
Interest income	14,709	-	14,709
Total revenues, gains and other support	471,095	(140,641)	330,454
Functional expenses			
Program services	41,407	-	41,407
Support services			
Management and general	54,591	-	54,591
Fundraising	3,907	-	3,907
Total support services	58,498	-	58,498
Total functional expenses	99,905	-	99,905
Change in net assets	371,190	(140,641)	230,549
Net assets, beginning of year	1,726,126	3,381,812	5,107,938
Net assets, end of year	\$ 2,097,316	\$ 3,241,171	\$ 5,338,487

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

Sustainable Communities Fund
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program services	Support services		Total
		Management and general	Fundraising	
Accounting services	\$ -	\$ 13,644	\$ -	\$ 13,644
Bank charge	-	293	-	293
Business taxes and fees	-	521	-	521
Conference, convention and meetings	4,304	-	-	4,304
Legal fees	3,450	225	-	3,675
Membership dues	1,000	-	-	1,000
Overhead fee	2,278	2,734	98	5,110
Staff consulting	30,375	36,449	3,809	70,633
Telephone and telecommunications	-	239	-	239
Website	-	486	-	486
	<u>\$ 41,407</u>	<u>\$ 54,591</u>	<u>\$ 3,907</u>	<u>\$ 99,905</u>

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

Sustainable Communities Fund
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities	
Change in net assets	\$ 230,549
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Discounts on contributions receivable	(100,907)
Changes in operating assets and liabilities	
Program-related investment assets	(450,000)
Mission-related investment assets	(350,000)
Interest receivable	(4,667)
Contributions receivable	241,548
Accounts payable and accrued expenses	(7,580)
Deferred revenue	<u>63,560</u>
Net cash used in operating activities	<u>(377,497)</u>
 Net decrease in cash	 (377,497)
 Cash, beginning of year	 <u>1,123,874</u>
 Cash, end of year	 <u><u>\$ 746,377</u></u>

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

Sustainable Communities Fund
Notes to Financial Statements
December 31, 2017

1. NATURE OF OPERATIONS

Sustainable Communities Fund ("SCF") has been established to alleviate poverty and achieve environmentally sustainable solutions by investing in organizations that are providing innovative high-impact financing and technical assistance initiatives to communities and individuals suffering from deep poverty.

SCF is a private operating foundation which operates as a revolving investment fund capitalized by funds originating from investment activities generated primarily by National New Markets Fund ("NNMF"), a joint venture partnership between Strategic Development Solutions, LLC ("SDS") and Economic Innovations International ("EII"). SCF was created to revolve donations coming from NNMF's investment projects as well as other sources, into a new generation of investments benefiting very high-poverty communities or individuals. SCF achieves its mission by investing in organizations with innovative prototype lending or investing models that create significant social and environmental impacts. SCF particularly seeks organizations with new financing models that may need early stage seed funding where its investment can help them "prove" their model – and thus spur follow-on investors to bring additional resources to the effort.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income tax status

SCF is exempt from federal income taxes under Section 501(c)(3) and is classified as a private operating foundation under Section 509(a) of the Internal Revenue Code. SCF is subject to federal excise taxes on its net investment income.

Basis of accounting and financial statement presentation

SCF reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

- *Unrestricted net assets* - Include contributions, interest income, and other forms of revenue that are not restricted by the donor or grantor as well as expenditures related to the general operations of SCF.
- *Temporarily restricted net assets* - Include contributions that are temporarily restricted by the donor or grantor. When the restriction expires, the net assets of this classification are reclassified to unrestricted net assets. Restricted contributions where restrictions are met in the same reporting period are classified as unrestricted. At December 31, 2017, temporarily restricted net assets consisted of uncollected contributions net of a present value discount and are being reclassified to unrestricted net assets when paid.
- *Permanently restricted net assets* - Include contributions that have been restricted by the donor in perpetuity. SCF has no permanently restricted net assets.

Sustainable Communities Fund
Notes to Financial Statements
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Cash and cash equivalents

We consider all cash and highly liquid financial instruments with original 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. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition. There were no cash equivalents at December 31, 2017.

Program-related investments (PRIs)

SCF makes PRIs to other organizations to achieve its charitable purposes in alignment with SCF's strategies. At December 31, 2017, SCF had five outstanding PRIs in the form of certificates of deposit (one), equity (one) and loans (three).

PRIs are evaluated annually for impairment and no impairment losses were recorded during the year ended December 31, 2017.

Mission-related investment assets (MRIs)

SCF makes MRIs to other organizations to achieve its charitable purposes in alignment with SCF's strategies. MRIs are market-rate investments and, unlike PRIs, are not considered to be qualified distributions for tax purposes. At December 31, 2017, SCF had two outstanding MRIs in the form of certificates of deposit.

MRIs are evaluated annually for impairment and no impairment losses were recorded during the year ended December 31, 2017.

Sustainable Communities Fund
Notes to Financial Statements
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give

SCF records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are recorded as contributions receivable and are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. SCF determines the allowance for uncollectible 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 uncollectible. At December 31, 2017, management estimated that the entire balance of contributions receivable is collectible and, therefore, management has not recorded an allowance for doubtful accounts.

Revenue recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Grant revenue is recognized consistent with the terms of the grant agreement. Deferred revenue represents cash received in excess of costs incurred on cost reimbursement grants.

Functional expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent events

SCF has evaluated events subsequent to December 31, 2017, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through May 22, 2018, the date the financial statements were available to be issued. Based upon this evaluation it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.

Sustainable Communities Fund
Notes to Financial Statements
December 31, 2017

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

CLASC Building, LLC	\$	450,000
B&C Castings, Inc.		210,000
CSOTD Holdings, Inc.		130,000
Aker Biomarine Manufacturing, LLC		128,571
Sarla Manufacturing Associates, LLC		139,285
Blueoak Arkansas, LLC		142,857
MIA Land & Property, LLC		212,500
Detroit Manufacturing Systems, LLC		171,428
Pizitz, LLC		394,286
American Tubing Arkansas, LLC		175,000
PDPP Abilene, LLC		360,000
SAFB Real Estate, Inc.		175,000
SALB Real Estate Ventures, Inc.		127,000
2301 LA Holdings		130,400
The Nucleus Real Properties, Inc.		150,000
CMC Steel Oklahoma, LLC		315,000
		3,411,327
Less: discount to present value		(170,156)
		\$ 3,241,171

Contributions receivable by year are as follows:

Due in less than 1 year	\$	1,248,511
Due in 1 to 5 years		2,162,816
		3,411,327
Present value discounts on contributions receivable		(170,156)
		\$ 3,241,171

SCF uses 2.5% as its present value discount factor which is based on an average of 5-year U.S. Treasury rates.

4. INVESTMENT ASSETS

PRIs are strategic investments, beyond grants, made by SCF for the specific objective of furthering SCF's charitable purpose. The production of income is not the primary objective of a PRI.

Sustainable Communities Fund
Notes to Financial Statements
December 31, 2017

4. INVESTMENT ASSETS (continued)

SCF's portfolio includes loans and certificates of deposit invested in not-for-profit entities and one equity investment in a for-profit entity. The majority of these investments are in support of economic development activities in low-income communities in the United States. They enable partner organizations to invest in small business development and entrepreneurship in select communities. Interest payments are due on the outstanding loan and certificate of deposit amounts at interest rates generally ranging between 1% and 3%.

During the year ended December 31, 2017, SCF made two PRI investments. One was a loan totaling \$100,000 and the second was an equity investment in a for-profit entity totaling \$350,000. The equity investment is being carried at cost as SCF's ownership interest is less than 20% and does not have control.

The PRIs are summarized in the table below as follows:

PRIs, beginning of year	\$ 644,000
Additional loans	450,000
Contribution to loan conversion	<u>1,000</u>
	1,095,000
Interest receivable	<u>9,834</u>
PRIs, end of year	<u><u>\$ 1,104,834</u></u>

In addition to the PRIs detailed above, SCF had \$350,000 in mission-related investments (MRIs) at December 31, 2017 with interest receivable of \$857.

The future maturities of the program-related and mission-related investments are as follows:

<u>Year ending December 31,</u>	
2019	\$ 625,000
2020	370,000
2021	-
2022	<u>450,000</u>
	<u><u>\$ 1,445,000</u></u>

Sustainable Communities Fund
Notes to Financial Statements
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5. RELATED PARTY

SCF has entered into a shared services agreement with Strategic Development Solutions, LLC ("SDS"). SDS is owned by individuals that serve on the board of directors of SCF and are therefore disqualified persons under the Internal Revenue Code. SCF has determined that this arrangement qualifies as reimbursement for reasonable and necessary costs. Under the agreement, SCF will reimburse SDS for direct costs of services provided by SDS personnel (which includes a 7.5% overhead charge applied to this total), up to \$140,329 in 2017. Any services provided directly by disqualified persons are not charged to SCF. During 2017, total costs reimbursable to SDS totaled \$73,243, of which \$25,321 was included in accounts payable and accrued expense at December 31, 2017.

6. FEDERAL EXCISE TAXES

SCF is subject to federal excise taxes imposed on private foundations at 2%, or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which includes interest, dividends, and net related gains on the sale of investments. Management records excise tax expense on the cash basis as the amount due is estimated to be de minimis.

