Sustainable Communities Fund

Financial Statements

December 31, 2019

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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) ("SCF"), which comprise the statement of financial position as of December 31, 2019, 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; 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 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, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, SCF has implemented Financial Accounting Standards Board Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* and ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 8 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Armanino LLP

Armanino LLP
Los Angeles, California

June 19, 2020

Sustainable Communities Fund
Statement of Financial Position
December 31, 2019

ASSETS

Cash and cash equivalents	$	1,470,417
Contributions receivable, net		1,195,321
Program-related investment assets, net, including interest receivable of $27,417		2,359,444
Mission-related investment assets, net		392,434
Total assets	$	5,417,616

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	$	24,268
Total liabilities		24,268
Contingency (Note 8)		
Net assets		
Without donor restrictions		
Operating reserve		138,500
Designated for future funding commitments (Note 5)		365,600
General		3,693,927
Total without donor restrictions		4,198,027
With donor restrictions		1,195,321
Total net assets		5,393,348
Total liabilities and net assets	$	5,417,616

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

Sustainable Communities Fund
Statement of Activities
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions			
Contributions, net	$ -	$ 144,542	$ 144,542
Net assets released from restriction	1,602,758	(1,602,758)	-
Total contributions	1,602,758	(1,458,216)	144,542
Interest income	70,113	-	70,113
Total revenues, gains, and other support	1,672,871	(1,458,216)	214,655
Functional expenses			
Program services	125,623	-	125,623
Support services	120,229	-	120,229
Total functional expenses	245,852	-	245,852
Change in net assets from operations	1,427,019	(1,458,216)	(31,197)
Gain on adjustment of previous allowance for uncollectible promises to give	-	149,744	149,744
Change in net assets	1,427,019	(1,308,472)	118,547
Net assets, beginning of year	2,771,008	2,503,793	5,274,801
Net assets, end of year	$ 4,198,027	$ 1,195,321	$ 5,393,348

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

Sustainable Communities Fund
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program services	Management and general	Total
Accounting services	$ -	$ 27,595	$ 27,595
Bad debt allowance	5,160	-	5,160
Bank charge	-	3	3
Books, subscriptions and reference	1,957	1,296	3,253
Business taxes and fees	-	294	294
Conference, convention and meetings	8,235	(39)	8,196
Insurance	2,288	981	3,269
Legal fees	113	3,214	3,327
Membership dues	1,000	-	1,000
Overhead fee	1,281	629	1,910
Payroll administration	14,260	11,667	25,927
Postage and mailing	-	33	33
Salaries	74,257	64,046	138,303
Staff consulting	17,072	8,392	25,464
Telephone and telecommunications	-	369	369
Website	-	1,749	1,749
	$ 125,623	$ 120,229	$ 245,852

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

Sustainable Communities Fund
Statement of Cash Flows
For the Year Ended December 31, 2019

Cash flows from operating activities	
Change in net assets	$ 118,547
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Gain on adjustment for previous allowance for uncollectible promises to give	(149,744)
Discounts on contributions receivable	(64,541)
Changes in operating assets and liabilities	
Contributions receivable	1,522,757
Program-related investment assets	(788,892)
Mission-related investment assets	(35,456)
Accounts payable and accrued expenses	(3,334)
Net cash provided by operating activities	599,337
Net increase in cash and cash equivalents	599,337
Cash and cash equivalents, beginning of year	871,080
Cash and cash equivalents, end of year	$ 1,470,417

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

1. NATURE OF OPERATIONS

Sustainable Communities Fund ("SCF") has been established to alleviate poverty by supporting financial, economic and social inclusion strategies that empower people and strengthen low-income communities.

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.

SCF filed to terminate its foundation status and transition to a public charity on December 23, 2019, triggering the start of a five-year transition process. SCF will continue to be a private operating foundation through 2024. SCF has also filed for an advance ruling letter with the IRS to allow SCF to fundraise as a public charity during the five-year transition period.

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.

Change in accounting principle

SCF has implemented Financial Accounting Standards Board Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customer*s, ("ASU 2014-09") which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. SCF has implemented ASU 2014-09 with a date of initial application of January 1, 2019, using the full-retrospective method. The implementation of ASU 2014-09 had an immaterial impact on the financial statements for the year ended December 31, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

SCF has also implemented Financial Accounting Standards Board ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* ("ASU 2018-08"). That standard clarifies guidance about whether funds received from contracts and grants are contributions or exchange transactions. The standard further provides that when both a barrier to be overcome and a right of return exist, a donor-imposed condition exists and contribution revenue should not be recognized until the condition has been met. A probability assessment about whether the recipient is likely to meet the stipulation is not a factor when determining whether an agreement is a barrier. SCF has implemented the standard on a modified prospective basis, meaning that it has been applied to all arrangements that were not completed as of January 1, 2019, or were entered into after that date. The implementation of ASU 2018-08 had an immaterial impact on the financial statements for the year ended December 31, 2019.

Basis of accounting and financial statement presentation

The financial statements of SCF have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP") in the United States of America.

SCF reports information regarding its financial position and activities based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Without donor restrictions, operating reserve* - Includes net assets designated as an operating reserve.
- *Without donor restrictions, designated for future funding commitments* - Includes net assets designated for approved program-related investment assets ("PRIs") and mission-related investment assets ("MRIs") that have not yet been funded (see Note 5).
- *Without donor restrictions, general* - Includes 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.
- *With donor restrictions* - Includes 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. At December 31, 2019, net assets with donor restrictions consisted of uncollected contributions net of an allowance for uncollectible contributions and present value discount and are being reclassified to net assets without donor restrictions when paid.

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

SCF considers 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, 2019.

Program-related investment assets (PRIs)

SCF makes PRIs to other organizations to achieve its charitable purposes in alignment with SCF's strategies. At December 31, 2019, SCF had nine outstanding PRIs in the form of equity (one), certificate of deposit (one) and loans (seven).

PRIs are evaluated annually for impairment and no impairment losses were recorded during the year ended December 31, 2019.

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, 2019, SCF had three outstanding MRIs in the form of certificates of deposit (two) and equity (one).

MRIs are evaluated annually for impairment and no impairment losses were recorded during the year ended December 31, 2019.

PRI and MRI allowance for loan losses

SCF has the following process in determining its allowance for loan losses: SCF assesses each individual investment on its own to determine its individual contribution to the overall PRI or MRI allowance for loan losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PRI and MRI allowance for loan losses (continued)

Initial investment - At the time of reviewing a prospective investment, SCF underwriters assess organizational and project-level risks and assign a risk rating score of 1-5 (1= lowest risk). Each of these risk-rating scores has been assigned a percentage range of the dollar amount of the loan to be allocated to the allowance for loan losses. Underwriters assign this dollar amount for the allowance for loan losses as is deemed appropriate based on the specific perceived investment risk rating, and SCF will set aside this dollar amount into its respective PRI or MRI allowance for loan losses account as the investment funds deploy.

Annual re-assessment - Each investment is assessed annually for its level of risk during its annual asset management review or during an interim assessment if SCF learns of additional investment risks during the course of on-going borrower communications. Based on the new risk assessment, the allowance for loan losses may be increased or decreased as appropriate.

At the end of 2019, there was $50,000 in the PRI allowance for loan losses which account for the nine PRI investments (in eight agreements). At the end of 2019, there was $5,160 in the MRI allowance for loan losses which account for the three MRI investments. Two of the MRI investments have been rated as Risk Level 1 and have 100% payment guarantees, and therfore SCF has not provided an allowance for the two Risk Level 1 investments. The third MRI investment has been rated as Risk Level 2 and SCF has provided an allowance equal to 15% of capital deployed.

Contributions receivable 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. In addition, at December 31, 2019, management deemed the total contributions receivable balance to be collectible and, therefore, management did not record an allowance for doubtful contributions receivable.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through June 19, 2020, 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, except as disclosed in Note 8.

3. CONTRIBUTIONS RECEIVABLE AND NET ASSETS WITH DONOR RESTRICTIONS

Contributions receivable and net assets with donor restrictions consisted of the following:

Khan Family Office	$ 340,000
Detroit Manufacturing Systems, LLC	85,714
Pizitz, LLC	262,857
American Tubing Arkansas, LLC	175,000
The Nucleus Real Properties, Inc.	150,000
CMC Steel Oklahoma, LLC	157,500
The Westervelt Company	80,000
	1,251,071
Less: discount to present value	(55,750)
	$ 1,195,321

Contributions receivable by year are as follows:

Due in less than 1 year	$ 424,821
Due in 1 to 5 years	746,250
Due in more than 5 years	80,000
	1,251,071
Less: discount to present value	(55,750)
	$ 1,195,321

SCF uses 1.95% as its present value discount factor which is based on an average of 5-year U.S. Treasury rates.

3. CONTRIBUTIONS RECEIVABLE AND NET ASSETS WITH DONOR RESTRICTIONS (continued)

Donor-restricted net assets consist solely of contributions receivable, which are restricted as to time.

4. 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.

5. 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.

Deployed

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 4%.

During the year ended December 31, 2019, SCF made five PRI investments. Two of the new investments were loans of $200,000 each, and two of the new investments were loans of $300,000 each. One of the investments consisted of an additional $150,000 loan to an existing borrower based on the conditions of their agreement.

5. INVESTMENT ASSETS (continued)

Deployed (continued)

Investment assets are summarized in the table below as follows:

	PRIs	MRIs	Total
Beginning of year	$ 1,599,653	$ 350,000	$ 1,949,653
Additional loans	1,157,374	297,594	1,454,968
Principal repayments	(375,000)	(250,000)	(625,000)
	2,382,027	397,594	2,779,621
Less: allowance for doubtful investment assets	(50,000)	(5,160)	(55,160)
Add: Interest receivable	27,417	-	27,417
End of year, net	$ 2,359,444	$ 392,434	$ 2,751,878

Committed/Undeployed

SCF has one unfunded commitment at December 31, 2019 totaling $365,600. This unfunded commitment consists of one MRI in the amount of $400,000. Funding for the MRI requires formal capital calls from the investee. During 2019, the investee submitted capital calls totaling $34,400 which SCF funded.

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

Year ending December 31,	
2020	$ 640,667
2021	350,000
2022	754,554
2023	300,000
Thereafter	734,400
	$ 2,779,621

6. RELATED PARTY TRANSACTIONS

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 considered 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 $40,000 in 2019. Any services provided directly by disqualified persons are not charged to SCF. During 2019, total costs reimbursable to SDS totaled $23,394, of which $3,980 was included in accounts payable and accrued expenses at December 31, 2019.

7. LIQUIDITY AND AVAILABILITY

SCF is significantly supported by contributions. SCF's liquidity management policy is designed to provide that its remaining financial assets are available for operations as its general expenditures, liabilities, and other obligations come due.

The following reflects SCF's financial assets reported on the statement of financial position, reduced by amounts not available for general use within one year because of contractual or time restrictions, or commitments to provide funding to identified investments. PRIs and MRIs have been excluded from this analysis, since they are not generally available for use in SCF's operations.

Liquidity of financial assets as of December 31, 2019 is as follows:

Financial assets	
Cash and cash equivalents	$ 1,470,417
Contributions receivable	1,251,071
	2,721,488
Less: assets unavailable for general use	
Contributions receivable due past one year	(826,250)
Operating reserve	(138,500)
Designated for future funding commitments	(365,600)
	(1,330,350)
	$ 1,391,138

8. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the disruption is currently expected to be temporary, there is considerable uncertainty with respect to the long-term economic impact of these disruptions. It is at least reasonably possible that this matter will negatively impact SCF. However, the ultimate financial impact and duration cannot be reasonably estimated at this time.