



Report of Independent Auditors and
Consolidated Financial Statements

RSF Social Finance, Inc. and Affiliates

December 31, 2023 and 2022

Table of Contents

	Page
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statements of Functional Expenses	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9



Report of Independent Auditors

The Board of Directors
RSF Social Finance, Inc. and Affiliates

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of RSF Social Finance, Inc. and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of RSF Social Finance, Inc. and Affiliates as of December 31, 2023 and 2022, and the results of their change in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of RSF Social Finance, Inc. and Affiliates and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about RSF Social Finance, Inc. and Affiliates' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 RSF Social Finance, Inc. and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RSF Social Finance, Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in the year ended December 31, 2023, RSF Social Finance, Inc. and Affiliates adopted new accounting guidance Accounting Standards Update 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.



San Francisco, California
June 4, 2024

Consolidated Financial Statements

RSF Social Finance, Inc. and Affiliates
Consolidated Statements of Financial Position
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 23,804,533	\$ 52,550,998
Mission-related loans and investments:		
Loans receivable, net of allowance for credit losses of \$6,002,967 and \$5,981,965 as of December 31, 2023 and 2022, respectively	100,748,091	89,384,811
Investments, fair value	91,827,424	71,021,760
Investments, held at cost	1,856,556	7,050,665
Prepaid expenses and other assets	1,237,745	1,070,207
Total assets	\$ 219,474,349	\$ 221,078,441
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 5,784,270	\$ 2,441,318
Investor notes payable	107,612,992	118,297,137
Other notes payable	9,002,513	8,000,000
Total liabilities	122,399,775	128,738,455
NET ASSETS		
Net assets without donor restrictions:		
Undesignated net assets without donor restrictions	96,924,574	92,055,811
Total net assets without donor restrictions	96,924,574	92,055,811
Net assets with donor restrictions	150,000	284,175
Total net assets	97,074,574	92,339,986
Total liabilities and net assets	\$ 219,474,349	\$ 221,078,441

See accompanying notes.

RSF Social Finance, Inc. and Affiliates
Consolidated Statement of Activities
For the Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Management and other fee income	\$ 1,025,384	\$ -	\$ 1,025,384
Net interest income and investment return:			
Interest income - loans receivable	5,857,327	-	5,857,327
Investment gain, net	2,274,135	-	2,274,135
Net interest income and investment return	8,131,462	-	8,131,462
Gifts and contributions	48,612,592	-	48,612,592
Program revenue	210,022	-	210,022
Net assets released from restrictions	134,175	(134,175)	-
Total revenues and other support	58,113,635	(134,175)	57,979,460
EXPENSES			
Program services	51,270,537	-	51,270,537
Management and general	1,889,616	-	1,889,616
Total expenses	53,160,153	-	53,160,153
CHANGE IN NET ASSETS	4,953,482	(134,175)	4,819,307
Adjustments to beginning net assets for adoption of ASU 2016-13	(84,719)	-	(84,719)
Adjusted net assets, beginning of year	91,971,092	284,175	92,255,267
NET ASSETS, end of year	\$ 96,924,574	\$ 150,000	\$ 97,074,574

See accompanying notes.

RSF Social Finance, Inc. and Affiliates
Consolidated Statement of Activities
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Management and other fee income	\$ 793,005	\$ -	\$ 793,005
Net interest income and investment return:			
Interest income - loans receivable	4,941,852	-	4,941,852
Investment loss, net	(2,626,840)	-	(2,626,840)
Net interest income and investment return	2,315,012	-	2,315,012
Gifts and contributions	34,848,527	-	34,848,527
Program revenue	107,709	-	107,709
Net assets released from restrictions	24,478	(24,478)	-
Total revenues and other support	38,088,731	(24,478)	38,064,253
EXPENSES			
Program services	46,743,275	-	46,743,275
Management and general	1,924,222	-	1,924,222
Total expenses	48,667,497	-	48,667,497
CHANGE IN NET ASSETS	(10,578,766)	(24,478)	(10,603,244)
NET ASSETS, beginning of year	102,634,577	308,653	102,943,230
NET ASSETS, end of year	\$ 92,055,811	\$ 284,175	\$ 92,339,986

See accompanying notes.

RSF Social Finance, Inc. and Affiliates
Consolidated Statements of Functional Expenses
For the Years Ended December 31, 2023 and 2022

	2023 Program Expenses					Total
	Lending Program	Investor Notes Program	Donor Advised Fund Program	Total Program Expenses	Management and General Expenses	
Grants made to programs	\$ -	\$ -	\$ 46,114,965	\$ 46,114,965	\$ -	\$ 46,114,965
Interest expense on investor notes	-	999,805	-	999,805	-	999,805
Provision for credit loss	-	-	-	-	-	-
Personnel costs	1,778,988	521,428	823,333	3,123,749	1,315,694	4,439,443
Consultants	44,703	22,351	35,470	102,524	180,106	282,630
Legal, accounting, and audit expenses	174,080	51,023	82,129	307,232	129,787	437,019
Travel expenses	32,418	9,502	16,561	58,481	25,013	83,494
Marketing expenses	44,603	13,073	23,627	81,303	34,977	116,280
Other expenses	219,729	64,403	198,346	482,478	204,039	686,517
Total functional expenses	\$ 2,294,521	\$ 1,681,585	\$ 47,294,431	\$ 51,270,537	\$ 1,889,616	\$ 53,160,153

	2022 Program Expenses					Total
	Lending Program	Investor Notes Program	Donor Advised Fund Program	Total Program Expenses	Management and General Expenses	
Grants made to programs	\$ -	\$ -	\$42,142,112	\$ 42,142,112	\$ -	\$ 42,142,112
Interest expense on investor notes	-	498,336	-	498,336	-	498,336
Recovery of credit loss	(161,953)	-	-	(161,953)	-	(161,953)
Personnel costs	1,528,717	448,072	1,025,831	3,002,620	1,342,817	4,345,437
Consultants	24,966	12,483	57,540	94,989	125,743	220,732
Legal, accounting, and audit expenses	287,404	84,239	40,551	412,194	150,915	563,109
Travel expenses	9,962	2,920	8,081	20,963	9,681	30,644
Marketing expenses	37,339	10,944	47,157	95,440	47,533	142,973
Other expenses	311,228	91,222	236,124	638,574	247,533	886,107
Total functional expenses	\$ 2,037,663	\$ 1,148,216	\$ 43,557,396	\$ 46,743,275	\$ 1,924,222	\$ 48,667,497

See accompanying notes.

RSF Social Finance, Inc. and Affiliates
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 4,819,307	\$ (10,603,244)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Provision for (recovery of) credit loss	-	(161,953)
Depreciation expense	14,599	-
Realized and unrealized (gain) loss on investments	(2,274,135)	2,626,840
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(148,411)	(44,607)
Accounts payable and accrued expenses	3,342,952	(1,565,786)
	<u>5,754,312</u>	<u>(9,748,750)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of loans receivable	(21,655,345)	(26,338,464)
Collections of loans receivable	10,207,346	25,825,032
Purchase of investments held at fair value	(18,531,529)	(300,000)
Purchase of investments held at cost	-	(44,476)
Proceeds from sale, maturity, or distributions of investments held at fair value	-	1,407,035
Proceeds from sale, maturity, or distributions of investments held at cost	5,194,109	3,907,022
Purchases of furniture and equipment	(33,726)	-
	<u>(24,819,145)</u>	<u>4,456,149</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on investor notes payable	(19,232,343)	(13,716,966)
Borrowings on investor notes payable	9,550,711	6,753,407
	<u>(9,681,632)</u>	<u>(6,963,559)</u>
NET CHANGES IN CASH AND CASH EQUIVALENTS	<u>(28,746,465)</u>	<u>(12,256,160)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>52,550,998</u>	<u>64,807,158</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 23,804,533</u></u>	<u><u>\$ 52,550,998</u></u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ 727,919	\$ 589,185
Income taxes	\$ 1,600	\$ 55,932

See accompanying notes.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 – Organization

RSF Social Finance was incorporated in 1936. As a not-for-profit financial intermediary, RSF Social Finance and its affiliates (RSF) create impact by funding social enterprises that contribute to a more just, regenerative, and compassionate world. RSF carries out its services on a worldwide basis through philanthropic services, social investment, lending, grant making, advising, and educational programs. RSF's focus areas include food and agriculture, education and the arts, and climate and environment. RSF has over 2,000 clients who are creating a deeply positive impact by helping to redirect the flow of money to catalytic initiatives and organizations, and to support communities often damaged by exploitation and resource depletion. RSF has two primary programs to support its charitable mission: lending to social enterprises funded by its Social Investment Fund (SIF) and philanthropic giving and impact investing through donor advised fund accounts and various field of interest funds that flow capital to social enterprises.

Effective March 3, 2022, RSF changed its name from Rudolf Steiner Foundation, Inc., to RSF Social Finance, Inc.

SIF Investor Notes Program – RSF offers individuals and organizations the ability to invest in unsecured notes as part of the SIF Investor Notes Program. The notes mature and pay interest at the end of each calendar quarter, and principal and interest are automatically reinvested or, if an investor requests, repaid at maturity. RSF sets the interest rate for the notes effective as of the first day of each calendar quarter (see Note 6).

Lending program – Proceeds from the SIF Investor Notes Program are used by RSF to make loans to a broad range of mission-related social enterprises in the fields of sustainable agriculture, education and the arts, and climate and environment. Borrowers are evaluated on factors such as creditworthiness, social mission, supplier and customer practices, community engagement, and environmental regeneration (see Note 3).

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation – In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, these consolidated financial statements include the accounts of SIF and RSF Capital Management, PBC (CMP). RSF Social Finance appoints the majority of the directors of SIF and CMP and has an economic interest in these entities. All intercompany transactions and accounts have been eliminated in the consolidation.

Basis of presentation – The consolidated financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Description of net assets – RSF reports information regarding its consolidated financial position and activities according to two classes of net assets. Without donor restrictions is defined as that portion of net assets that has no use or time restrictions. There were no reserves designated by RSF's board of directors as of December 31, 2023 and 2022. These reserves are considered net assets without donor restrictions. With donor restrictions is defined as that portion of net assets that consist of a restriction on the specific use or the occurrence of a certain future event. Net assets with donor restrictions were \$150,000 and 284,175 as of December 31, 2023 and 2022, respectively.

Use of estimates – In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for credit losses, allocation of functional expenses, and fair value measurement. Actual results could differ from those estimates.

Cash and cash equivalents – RSF considers all highly-liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Money market accounts and certificates of deposit that are intended for long-term investment purposes are classified separately under investments.

Cash and cash equivalents included \$7,723,076 and \$5,287,928 of cash set aside for philanthropic services as of December 31, 2023 and 2022, respectively. This cash is not available for operations.

Mission-related loans receivable – These consist of mission-related loans made by RSF to nonprofit and for-profit organizations. The loans are generally collateralized by mortgages, business assets, guaranties, and pledges from individuals and organizations. These loans are reported at their outstanding principal balances together with accrued interest and fees, net of any unamortized costs on originated loans. RSF has the ability and intent to hold the loans for the foreseeable future. While loans receivable is categorized by type for disclosure purposes, management believes that each category has a similar risk of repayment (see Note 3).

Allowance for credit losses on loans – The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed and recoveries are credited to the allowance when received. In the case of recoveries, amounts may not exceed the aggregate of amounts previously charged off.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

Accrued interest receivable is included in loans receivable on the consolidated statements of financial position and is included in the estimate of credit losses for loans.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

On January 1, 2023, RSF adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Since adoption, the allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. RSF has identified the following portfolio segments and measures the allowance for credit losses using the following methods: Commercial and Industrial (C&I), and Commercial Real Estate Non-Farming Non- Residential Mortgage (CRE) using the discounted cash flow method.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs.

RSF evaluates and assigns a risk grade to each loan based on certain criteria to assess the credit quality of each loan. The assignment of a risk rating is done for each individual loan. Loans are graded from inception and on a continuing basis until the debt is repaid. Any adverse or beneficial trends will trigger a review of the loan risk rating. Each loan is assigned a risk grade based on its characteristics. Loans with low to average credit risk are assigned a lower risk grade than those with higher credit risk as determined by the individual loan characteristics. See Note 3 of the Notes to the consolidated financial statements for loan risk rating definition.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as individually evaluated. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

When the discounted cash flow method is used to determine the allowance for credit losses, management does not adjust the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

Expected credit losses are estimated over the contractual term of loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that an extension or renewal option are included in the original or modified contract at the reporting date and are not unconditionally cancellable by RSF.

Management has an experienced team that works with borrowers to help them through financial challenges that could affect their ability to make loan payments. If the financial position of certain borrowers improves over time, it may be possible to recover part of the allowance for credit losses and take the recovered amount back into income.

Nonaccrual loans – Generally, loans are placed on nonaccrual status when one or more of the following occurs:

1. The scheduled loan payment becomes 90 days past due;
2. It becomes probable that the client cannot or will not make scheduled payments;

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

3. Full repayment of interest and principal is not expected; and
4. The loan displays potential loss characteristics.

When placed on nonaccrual, RSF reverses the recorded unpaid interest, and any subsequent payments shall be applied first to principal. Loans placed on nonaccrual are generally deemed individually evaluated.

Loans may be returned to accrual status when one or more of the following conditions have been met:

1. All payments (according to the original terms of the loan) are brought current;
2. A six-month period of satisfactory payment history has been established; and
3. A current evaluation of the client indicates the ability to repay the loan according to the original terms.

All loans with a delinquent status of 90 days are classified as substandard and placed on nonaccrual status.

Loan modifications – On January 1, 2023, RSF adopted ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt restructurings and Vintage Disclosures*. These amendments eliminate the TDR recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for the other loan modifications) whether the modification represents a new loan or continuation of an existing loan.

Allowance for credit losses on unfunded commitments – RSF maintains a separate allowance for losses related to off-balance-sheet exposures. Management estimates the amount of probable losses by applying a loss factor and utilization assumptions to the available portion of undisbursed lines of credit. This allowance of \$84,719, is included in accounts payable and accrued expenses on the consolidated statement of financial position at December 31, 2023. There was no allowance related to undisbursed lines of credit for the years ended December 31, 2023 and 2022.

Mission-related investments – Mission-related investments are investments in which RSF intends to generate a social return as well as a financial return. Such investments are related to, and further RSF's programmatic mission. Mission-related investments are included in investments, at fair value and investments, held at cost on the consolidated statements of financial position (see Note 4).

Investments, fair value – RSF records investments with readily determinable fair values at their fair values. Stock gifts received from donors are recorded as gift income at the fair value of the stock gifts on the date of donation. Gains and losses and investment return derived from investments are accounted for as with or without donor-imposed restrictions based on restrictions, if any, in the accompanying consolidated statements of activities.

The fair values were evaluated by RSF to determine if the values should be adjusted. Factors considered included, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar entities, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Valuations are reviewed at least annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Investments are reported at fair value based on quoted market price, net asset value (NAV) reported by fund managers, or a market approach method which derives fair value by reference to observable valuation measures for comparable companies or assets such as performance metrics. Net appreciation or depreciation in investments, including realized gains or losses and unrealized appreciation or depreciation on those investments, as well as all dividends, interest, and other investment income, net of investment expense, is reported in the consolidated statements of activities. Investment return is reported as an increase in net assets with or without donor restrictions, unless there are donor-imposed restrictions on the use of the income.

Investments, held at cost – These represent notes and closely-held stock. In accordance with ASU 2016-01, where the fair value of an investment in equity securities is not readily determinable, RSF uses the measurement alternative of cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Investments in notes represent direct investments in loans by donors and are measured at cost less impairment and are adjusted for observable price changes in orderly transactions for the identical or similar investments of the same issuer. There were no adjustments for observable inputs. These investments are evaluated for impairment annually and written down when appropriate. As of December 31, 2023 and 2022, no such write-downs have occurred.

Fair value measurements – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed below. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation inputs for Level 3 investments may include, but are not limited to, initial investment amount (cost), observed transaction price used in subsequent valuations, liquidation value, qualified opinion or appraisal, company financial statements, press releases and company commentary, and RSF's own assessment of value and applicable discounts. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate.

There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions and may include significant management judgment and estimation.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

RSF used the following methods and significant assumptions to estimate fair value:

Individually evaluated loans – RSF does not record loans at fair value on a recurring basis. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are placed on nonaccrual and individually evaluated. The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise and liquidation value and discounted cash flows. Those loans not requiring an allowance for credit losses represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, RSF records the individually evaluated loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is below the appraised value or the appraised value contains a significant assumption and there is no observable market price, RSF records the individually evaluated loan as nonrecurring Level 3.

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable RSF would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans were recorded at the lower of cost or fair value and thus were subject to fair value adjustments on a nonrecurring basis. The fair value of impaired loans with specific allocations of the allowance for loan losses was generally based on recent real estate appraisals, less estimated selling costs, if the loan is collateral-dependent. Generally, a 10% discount was used to estimate selling costs. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments were usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification.

Corporate securities – In May 2022, RSF's holdings of Freshlocal Solutions were fully written off after having a discussion with their management and their subsequent filing for the Canadian equivalent of Bankruptcy. This resulted in a realized loss of \$1,500,724 recorded in investment loss, net on the consolidated statements of activities.

Prepaid expenses and other assets – Any expenses paid prior to the related services rendered will be recorded as prepaid expenses. These prepaid expenses will be expensed once the service has been rendered or over the course of the contract period, such as for insurance policies.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Notes payable – Notes payable are liabilities consisting of both investor notes and other notes made to RSF by individuals, organizations, and/or corporations for specified periods, depending on the terms of the agreements with the other parties.

RSF is able to achieve its mission in part due to the low-cost funding arrangements with investors. RSF's arrangements with its borrowers often include below-market interest rates and bespoke structures. Access to favorable funding arrangements is a significant benefit for RSF and allows RSF, as a small business lending intermediary, to pass along cost savings to the ultimate recipients: RSF's customers. No attempt has been made to account for or report on the economic benefits associated with these favorable funding arrangements since the intent is to pass the reduced interest costs through to the end recipient. Management believes the associated economic benefit, when offset by the benefit passed along to end recipient borrowers, is not significant to RSF's net assets at December 31, 2023 and 2022, or to changes in net assets for the years then ended.

Revenue recognition – RSF records certain revenue from contracts with customers in accordance with ASC 606, *Revenue from Contracts with Customers* (ASC 606). Under ASC 606, RSF must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) RSF satisfies a performance obligation.

Certain sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of ASC 606. RSF used the following methods to recognize revenue:

Management and other fee income – RSF earns management fees from customers for services rendered on assets under management related to donor advised fund and other charitable funds accounts. Fees charged to these accounts on a monthly basis are recognized as the performance obligation is satisfied at the end of the service period. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the account holders.

RSF has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of activities is not necessary. RSF generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is limited judgment involved in applying ASC 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Program revenue – Program revenue primarily consists of grant revenue. Grant revenues are recognized as net assets without donor restrictions as services are recognized in accordance with ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Grants are considered to be a conditional contribution and the contribution is met when the services are performed and/or expenses are incurred.

Gifts and contributions – Gifts and contributions consist principally of donations from individuals and organizations.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Unconditional gifts and contributions are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions and are recognized when received. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions. Support with donor restrictions is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statements of activities as net assets released from restrictions.

Interest and fee income – Most of RSF's income is derived from lending activities. Loans are generally offered at a base rate plus or minus a spread. The base rate charged on loans receivable is adjusted periodically in response to changing market and economic conditions among other factors. At December 31, 2023 and 2022, the base rates in place were 6.00% and 4.50%, respectively. Generally, loans with temporarily impaired values and loans to borrowers experiencing financial difficulties are placed on nonaccrual even though the borrowers continue to repay the loans as scheduled.

Grants made – Grants are recognized when all conditions are met by grantees, all due diligence has been completed, and they are approved by management. Conditional grants are expensed and considered payable only in the period the conditions are substantially satisfied. There were no conditional grants for the years ended December 31, 2023 and 2022.

Functional expense allocation – The costs of RSF's various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of functional expenses. Expenses directly identifiable with programs are charged to program services. Supporting services include overhead expenses not directly identifiable with programs but which provide for overall support and direction of RSF, such as personnel costs. Expenses are allocated to RSF based on a determination of time and resources spent specifically on social enterprise lending activities. The percentage of expenses allocated has ranged from 10% to 90% of individual departmental expenses. There were no fundraising expenses incurred during the years ended December 31, 2023 and 2022.

Income taxes – RSF (excluding CMP) are qualified organizations exempt from federal and California income taxes under, respectively, (i) Section 501(c)(3) of the Internal Revenue Code (IRC) as an organization described under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the IRC with respect to RSF and Section 509(a)(3) of the IRC with respect to SIF and GCF and (ii) Section 23701d of the California Revenue and Taxation Code.

CMP pays both federal and state income tax on its taxable income. Income taxes are provided for the tax effect of transactions reported in the accompanying consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial and income tax reporting purposes. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. A valuation allowance is established against deferred tax assets if, in management's opinion, it is more-likely-than-not that all or a portion of such deferred tax assets will not be fully realized.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

U.S. GAAP prescribes recognition thresholds and measurement attributes for the consolidated financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if a tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that there are no tax benefits or liabilities to be recognized at December 31, 2023 and 2022.

RSF would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. RSF has no amounts accrued for interest or penalties for the years ended December 31, 2023 and 2022. RSF does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

Reclassifications – Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year change in net assets or net assets.

Recent accounting pronouncements – On January 1, 2023, RSF adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Additionally, ASC Topic 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell.

RSF adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in no change to our allowance for credit losses on loans, and an increase of \$84,179 to our allowance for unfunded commitments.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

The following table illustrates the impact on the allowance for credit losses from the adoption of ASC 326:

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
C&I	\$ 954,707	\$ 875,332	\$ 79,375
CRE	2,242,101	2,834,111	(592,010)
Unallocated	2,785,157	2,272,522	512,635
Allowance for credit losses on loans	5,981,965	5,981,965	-
Liabilities:			
Allowance for credit losses on off-balance-sheet credit exposures	84,719	-	84,719
Actual allowance balance at January 1, 2023	\$ 6,066,684	\$ 5,981,965	\$ 84,719

Note 3 – Loans Receivable and Allowance for Credit Losses

RSF's disclosures below reflect these changes made in 2023 to conform with the adoption of ASC 326, *Financial Instruments – Credit Losses*, using the modified retrospective approach. Accordingly, prior period was not modified to conform to the current period presentation.

As of December 31, 2023 and 2022, RSF's total loans receivable is summarized by loan category in the following table:

	2023	2022
C&I	\$ 47,031,275	\$ 38,206,299
CRE	59,719,783	57,160,477
	106,751,058	95,366,776
Allowance for credit losses	(6,002,967)	(5,981,965)
Total loans receivable	\$ 100,748,091	\$ 89,384,811

As of December 31, 2023, there was accrued interest receivable of \$527,739 included in loans receivable, net of allowance for credit losses of approximately \$19,000 on the consolidated statements of financial position.

RSF extends credit to organizations that are mission related. Interest rates on newly originated loans ranged from 5.00% to 7.25% during 2023, and from 3.05% to 8.10% during 2022. Loans generally have one-to five-years terms and are fully secured by business inventory and/or other assets and personal guaranties. RSF performs ongoing credit evaluations of borrowers, maintaining allowances for potential credit losses, when appropriate.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

For certain extensions of credit, RSF may require collateral, based on its assessment of a borrower's credit risk. RSF holds various types of collateral, including real estate, accounts receivable, inventory, equipment, guarantees, and financial instruments. Collateral requirements for each borrower may vary according to the specific credit underwriting, terms and structure of loans funded immediately or under a commitment to fund at a later date.

Certain commitments are subject to loan agreements with covenants regarding the financial performance of the borrower or borrowing base formulas that must be met before RSF is required to fund the commitment. RSF uses the same credit policies in extending credit for unfunded commitments in funding loans. In addition, RSF manages the potential risk in credit commitments by limiting the total amount of arrangements, both by organizations and/or affiliates, by monitoring the size and maturity structure of these loans and by applying the same credit standards for all loan activities. Although RSF believes the related collateral to be adequate, there is no assurance that the underlying assets have sufficient value to fully collateralize the outstanding balances. As of December 31, 2023 and 2022, the contractual amount of the unfunded credit commitments was approximately \$11,061,000 and \$9,770,000, respectively.

Investors have the option to enter into a limited guaranty agreement with RSF whereby the investor noteholder pledges their investor note to cover potential loan losses in a specific focus area within the portfolio. In 2023 and 2022, RSF had in place approximately \$2,102,000 and \$2,656,000, respectively, in limited guarantees from investors to provide for additional coverage for possible loan losses.

Management has estimated losses inherent in the outstanding guaranteed portion of these agreements and deemed it not necessary to apply additional reserves as the loan balances were fully guaranteed.

Below is an analysis of the allowance for credit losses for the year ended December 31, 2023:

	C&I	CRE	Unallocated	Total
Allowance for credit losses:				
Beginning balance, prior to adoption of ASC 326	\$ 875,332	\$ 2,834,111	\$ 2,272,522	\$ 5,981,965
Impact of adopting ASC 326	79,375	(592,010)	512,635	-
Charge-offs	-	-	-	-
Recoveries	-	21,002	-	21,002
Provision (recovery)	532,044	(79,949)	(452,095)	-
Ending balance	<u>\$ 1,486,751</u>	<u>\$ 2,183,154</u>	<u>\$ 2,333,062</u>	<u>\$ 6,002,967</u>

The unallocated reserve represents excess allowance for future growth of the loan portfolio. This excess reserve has been in the allowance balance over the last few years due to the strength of the loan portfolio and management decided not to reserve the excess due to anticipated growth of loans in the next couple of years.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Prior to the adoption of ASC 326 on January 1, 2023, RSF calculated the allowance for loan losses under the incurred loss methodology. The following table is disclosures related to the allowance for loan losses in prior periods in accordance with previously applicable U.S. GAAP.

	2022
Allowance for loan losses, beginning of year	\$ 6,181,426
Provision for loan losses	(161,953)
(Charge-off) recoveries, net	(37,508)
Allowance for loan losses, end of year	\$ 5,981,965
Individually evaluated for impairment	\$ 1,710,186
Collectively evaluated for impairment	\$ 4,271,779

Loan concentrations may exist when there are amounts loaned to borrowers engaged in similar activities or similar types of loans extended to a diverse group of borrowers that would cause them to be similarly impacted by economic or other conditions. The concentration of loans to schools was approximately 24% and 25% at December 31, 2023 and 2022, respectively. All school loans are secured by collateral that ranges based on loan type, but including deed of trust, UCC-1, Guaranty, and Collaborative funds. Based on current economic conditions, schools may be subject to a drop in tuition revenue and/or state funding. Based on current economic conditions, schools may be subject to a drop in tuition revenue and/or state funding. RSF monitors the underlying economic or market conditions for these areas within their credit risk management process, including schools' financial health by reviewing reports submitted by the schools as required by their loan covenants, conducting site visits and staying in regular contact with the school administrators.

Management assesses the credit quality of its loans with a risk rating system, where loans are classified in the following categories: pass, watch, special mention, substandard, doubtful, and loss. The risk ratings reflect the relative strength of the sources of repayment.

Pass – These loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected.

Watch or special mention – These loans are considered to have potential weaknesses that warrant close attention by management. Special mention may be a transitory grade and could include modified loans which are performing but retain this rating beyond six months. If any potential weaknesses are resolved, the loan is upgraded to a pass or watch grade. If negative trends in the borrower's financial status or other information is presented indicating that the repayment sources may become inadequate, the loan is downgraded to substandard.

Substandard – The loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as substandard.

Doubtful – These loans have insufficient sources of repayment and a high probability of loss.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Loss – These loans are considered to be uncollectible and are, therefore, charged off.

These internal risk ratings are reviewed continuously and adjusted for changes in borrower status and the likelihood of loan repayment.

The following tables show the gross loan portfolio allocated by management's internal risk ratings at December 31, 2023 and 2022:

		2023		
		Credit Risk Profile by Internally Assigned Grade		
		C&I	CRE	Total
Grade:				
	Pass	\$ 46,384,917	\$ 44,983,466	\$ 91,368,383
	Watch list/special mention	249,044	8,297,014	8,546,058
	Substandard	-	1,875,277	1,875,277
	Doubtful	397,314	4,564,026	4,961,340
	Total	\$ 47,031,275	\$ 59,719,783	\$ 106,751,058

		2022		
		Credit Risk Profile by Internally Assigned Grade		
		C&I	CRE	Total
Grade:				
	Pass	\$ 35,773,763	\$ 43,564,527	\$ 79,338,290
	Watch list/special mention	2,432,536	5,832,627	8,265,163
	Substandard	-	3,070,137	3,070,137
	Doubtful	-	4,693,186	4,693,186
	Total	\$ 38,206,299	\$ 57,160,477	\$ 95,366,776

RSF monitors past due status for the purpose of managing credit risk for all loans. The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2023 and 2022:

		2023				
		30–89 Days Past Due	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
C&I		\$ 293,527	\$ -	\$ 293,527	\$ 46,737,748	\$ 47,031,275
CRE		-	695,668	695,668	59,024,115	59,719,783
	Total	\$ 293,527	\$ 695,668	\$ 989,195	\$ 105,761,863	\$ 106,751,058

		2022				
		30–89 Days Past Due	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
C&I		\$ 930	\$ -	\$ 930	\$ 38,205,369	\$ 38,206,299
CRE		6,000	1,387,318	1,393,318	55,767,159	57,160,477
	Total	\$ 6,930	\$ 1,387,318	\$ 1,394,248	\$ 93,972,528	\$ 95,366,776

RSF Social Finance, Inc. and Affiliates
Notes to Consolidated Financial Statements

The following table presents the amortized cost basis of loans on nonaccrual status as of December 31:

	2023		
	Nonaccrual with no Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual
C&I	\$ -	\$ -	\$ -
CRE	695,668	-	695,668
Total	\$ 695,668	\$ -	\$ 695,668
			2022
			Total Nonaccrual
C&I			\$ -
CRE			1,387,318
Total			\$ 1,387,318

If interest on nonaccrual loans had been accrued at their original rates, such interest would have amounted to \$116,611 during 2023.

The following table details the amortized cost of collateral dependent loans:

	2023
C&I	\$ 646,358
CRE	13,375,822
	\$ 14,022,180

RSF may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-significant payment delay, term extension, interest rate modification, or combination therein.

There were no loan modifications during the year ended December 31, 2023.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

The following table presents loans by class, modified as troubled debt restructurings that occurred during the year ended December 31, 2022:

	Number of Loans	Pre- modification Outstanding Recorded Investment	Post- modification Outstanding Recorded Investment
December 31, 2022			
CRE	5	\$ 3,845,109	\$ 3,845,109

The modifications of loan terms during the year ended December 2022 included lowering principal and interest payments and payment deferrals.

RSF closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. As of December 31, 2023, there were no modified loans that subsequently defaulted.

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2022:

	2022				
	Recorded Investment	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Average Recorded Investment	Recognized Interest Income
With no related allowance recorded:					
C&I	\$ -	\$ -	\$ -	\$ -	\$ -
CRE	7,254,551	9,097,743	-	7,575,043	427,315
Total	7,254,551	9,097,743	-	7,575,043	427,315
With an allowance recorded:					
C&I	-	-	-	-	-
CRE	4,693,186	4,693,186	1,710,186	4,773,516	210,730
Total	4,693,186	4,693,186	1,710,186	4,773,516	210,730
Total	\$ 11,947,737	\$ 13,790,929	\$ 1,710,186	\$ 12,348,559	\$ 638,045

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

The tables below present the balances of loans individually evaluated for impairment measured at fair value at December 31, 2023 and 2022, on a nonrecurring basis:

	2023			
	Total	Level 1	Level 2	Level 3
C&I	\$ -	\$ -	\$ -	\$ -
CRE	2,957,500	-	-	2,957,500
Total	\$ 2,957,500	\$ -	\$ -	\$ 2,957,500

	2022			
	Total	Level 1	Level 2	Level 3
C&I	\$ -	\$ -	\$ -	\$ -
CRE	2,983,000	-	-	2,983,000
Total	\$ 2,983,000	\$ -	\$ -	\$ 2,983,000

The loan amounts above represent loans that have been adjusted to fair value. When collateral dependent loans are identified as impaired, the impairment is measured using the current fair value of the collateral securing these loans, less selling costs. The fair value of real estate collateral is determined using collateral valuations or a discounted cash-flow analysis using inputs such as discount rates, sale prices of similar assets, and term of expected disposition. The adjustments to appraised values range from 0% to 35%.

Note 4 – Investments and Fair Value Measurement

The tables below present the balances of assets measured at fair value at December 31, 2023 and 2022, on a recurring basis:

	2023				
	Total	Level 1	Level 2	Level 3	Net Asset Value
Cash and cash equivalents	\$ 65,770,210	\$ 65,770,210	\$ -	\$ -	\$ -
Certificate of Deposit Account Registry Service	15,488,252	-	15,488,252	-	-
Corporate securities	1,258,795	1,258,795	-	-	-
Investments, held at NAV:					
Private debt funds	5,609,851	-	-	-	5,609,851
Private equity funds	3,700,316	-	-	-	3,700,316
Total	\$ 91,827,424	\$67,029,005	\$15,488,252	\$ -	\$ 9,310,167

	2022				
	Total	Level 1	Level 2	Level 3	Net Asset Value
Cash and cash equivalents	\$ 59,482,061	\$ 59,482,061	\$ -	\$ -	\$ -
Corporate securities	1,525,420	1,525,420	-	-	-
Investments, held at NAV:					
Private debt funds	5,532,979	-	-	-	5,532,979
Private equity funds	4,481,300	-	-	-	4,481,300
Total	\$ 71,021,760	\$ 61,007,481	\$ -	\$ -	\$ 10,014,279

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

RSF manages mission-related investments, excluding loans receivable, according to the RSF Investment Policy Statement. This policy establishes the overall investment objectives, social impact goals, and asset allocation and diversification parameters, due diligence requirements, performance management, and policy compliance management.

Corporate securities are composed of investments in publicly traded securities. Fair value is based on quoted market prices in active markets for identical assets.

On July 6, 2023, RSF invested \$15,157,498 in a Certificate of Deposit Account Registry Service (CDARS). The CDARS program allows depositors to allocate large funds across multiple banks within the IntraFi Network to maximize Federal Deposit Insurance Corporation (FDIC) insurance coverage while dealing with a single point of contact. This allows depositors to stay within the \$250,000 insurance limit at each bank while still benefiting from FDIC insurance coverage of their entire deposit amount. This investment matures on July 5, 2024. These funds were previously invested in a Certificate of Deposit with a maturity period of 90 days or less, which was previously shown in RSF's cash and cash equivalents on the consolidated statements of financial position. Level 2 investments are CDARS, which are valued using maturity and interest rates as observable inputs.

Investments held at NAV are primarily comprised of investments in funds and limited partnerships. Fair value associated with these investments has been based on information provided by the individual fund managers. RSF used the NAV per share (or its equivalent) to estimate the fair value of these alternative investments.

The investment nature of the alternative investments as of December 31, 2023, for which fair value is based on NAV is as follows:

	Fair Value	Unfunded Commitments
Private Debt Funds	\$ 5,609,851	\$ -
Private Equity Funds	3,700,316	287,937
Total	\$ 9,310,167	\$ 287,937

Funds – RSF invests in two categories of funds. The first category consists of private debt funds that represent a diverse portfolio of industries and geographies. These funds invest in U.S. and non-U.S. debt instruments of privately held companies. Over 50% of these positions have monthly liquidity with a 30-day redemption notice period required, or shorter. The second category consists of private equity funds that represent a diversified group of select, primarily domestic, private equity, and venture capital limited partnerships. These investments are not generally eligible for redemption.

For investments for which there is no active market, generally referred to as “alternative investments,” fair values are initially based on valuations determined by using audited NAVs as of their most recent audited financial statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through year end.

RSF endeavors to ensure that the fair values of the financial instruments reported in the consolidated financial statements are appropriate and determined on a reasonable basis.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

While RSF believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such assets existed, or had such assets been liquidated, and these differences could be material to the consolidated financial statements.

Note 5 – Liquidity and Funds Available

The following table reflects RSF's financial assets as of December 31, 2023 and 2022, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year or when held for others. Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2023 and 2022:

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 23,804,533	\$ 52,550,998
Mission-related loans and investments:		
Loans receivable, net of allowance for loan losses	100,748,091	89,384,811
Investments, fair value	91,827,424	71,021,760
Investments, held at cost	1,856,556	7,050,665
Total financial assets	218,236,604	220,008,234
Less those unavailable for general expenditure within one year, due to:		
Cash and cash equivalents for philanthropic services	7,723,076	5,287,928
Principal receivable from loans after December 31,	74,505,040	68,174,770
Investments not convertible to cash within one year	93,683,980	78,072,425
Net assets with donor restrictions	150,000	284,175
Financial assets available to meet cash needs for general expenditures within one year	\$ 42,174,508	\$ 68,188,936

Illiquid investments in the table above are donor advised funds and are not available for general expenditures.

In addition to the financial assets available in the table above, RSF had approximately \$2,102,000 in limited loan guaranties as of December 31, 2023. Management structures RSF's financial assets to be available for general expenditures, including RSF investor notes payable redemptions and borrower draws on lines of credit, liabilities, and other obligations as they come due.

Note 6 – Notes Payable

Investor notes payable consist of funds received by RSF from individuals, organizations, and/or corporations that would like to support mission-related projects. They are unsecured and carried at amortized cost, which includes the total value of the principal investments plus accrued interest.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Investor notes payable have various terms, with maturities ranging from the end of the calendar quarter in which it is issued to up to three years. Upon maturity, except in states where automatic renewal is unavailable, each investor note payable automatically renews for an additional term ending on the last day of the next calendar quarter or an additional term ending on the first, second, or third anniversary of the maturity date (for long-term investor notes), unless RSF receives a noteholder's written request for redemption prior to the maturity date or 30 days after RSF sends notice of maturity date and the applicable interest rate upon renewal, whichever is later. Investors in states where automatic renewal is unavailable must elect in writing to reinvest the proceeds of a maturing investor note payable into a new investor note payable.

At December 31, 2023 and 2022, RSF had investor notes payable with quarterly maturities totaling \$103,525,743 and \$118,297,137, respectively, with effective interest rates of 1.00% and 0.25%. On renewal, the principal amount of the note will include any elected reinvested quarterly interest.

The average duration for which current RSF noteholders have held one or more investor notes payable with quarterly maturities was 11.9 years. In addition, the amount of investor notes with quarterly maturities redeemed in 2023 was approximately 12% of the aggregate outstanding balance as of December 31, 2022.

In the event that requests for note redemptions are in excess of management's expectations, management is able to fund these requests by utilizing available cash and cash equivalents, and proceeds from selling investments.

Long-term investor notes – Long-term investor notes consists of unsecured notes with set maturities of one year, two year, and three years with set interest rates. RSF began offering these notes in July 2023.

Note Category	Outstanding Balance December 31, 2023	Interest Rate
1 Year Notes	\$ 396,697	2.00%
2 Year Notes	369,432	3.00%
3 Year Notes	3,321,120	4.00%
Total long-term investor notes	<u>\$ 4,087,249</u>	

Long-term investor notes are scheduled to mature as follows:

Years Ending December 31,	
2024	\$ 396,697
2025	369,432
2026	<u>3,321,120</u>
Total long-term maturities	<u>\$ 4,087,249</u>

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 7 – Other Notes Payable

Other notes payable consist of funds received by RSF from individuals, organizations, and/or corporations that would like to support RSF’s mission and have custom terms and interest rates negotiated with the noteholder. They are unsecured and carried at amortized cost, which includes the total value of the principal investments plus accrued interest. All unpaid principal balances and accrued interest are due upon maturity.

Other notes payable are comprised of the following notes for the years ended December 31, 2023 and 2022:

Issued	Original Principal Amount	Maturity Date	Interest Rate	Outstanding Balance, December 31,	
				2023	2022
December 2016	\$ 8,000,000	December 2026	1.00%	\$ 8,000,000	\$ 8,000,000
December 2022	500,000	December 2027	2.50%	500,000	-
December 2022	500,000	December 2023 *	0.50%	502,513	-
Total				<u>\$ 9,002,513</u>	<u>\$ 8,000,000</u>

*At maturity, this note was rolled over to a long-term investor note (3 year term) on January 1, 2024.

Note 8 – Income Taxes

Income taxes pertaining to CMP for December 31, 2023 and 2022, are provided for the tax effects of transactions reported in the accompanying consolidated financial statements and consist of taxes currently due plus or minus deferred taxes. Deferred taxes relate primarily to temporary differences in loan losses, unrealized gains and losses, depreciation and amortization, certain accrued expenses, and net operating loss carryforwards. The deferred taxes represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

RSF Social Finance, Inc. and Affiliates
Notes to Consolidated Financial Statements

The provision for (benefit from) income taxes consisted of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Current:		
Federal	\$ -	\$ -
State	800	800
Total current tax provision	800	800
Deferred:		
Federal	-	-
State	-	(800)
Total deferred tax benefit	-	(800)
Change in valuation allowance	-	-
Provision for income taxes	\$ -	\$ 800

Deferred tax assets (liabilities) are comprised of the following at December 31, 2023 and 2022:

	2023	2022
Deferred tax assets:		
Net operating losses	\$ 697,619	\$ 693,000
Gross deferred tax assets	697,619	693,000
Valuation allowance	(697,619)	(693,000)
Total deferred tax assets	-	-
Deferred tax liabilities	-	-
Total deferred tax assets	\$ -	\$ -

At December 31, 2023 and 2022, CMP had \$2,492,355 of federal net operating loss carryforwards, respectively. At December 31, 2023 and 2022, CMP had \$2,428,332 of state net operating loss carryforwards. These federal and state net operating loss carryforwards expire beginning in 2028 for net operating losses generated 2017, and before, and carried-forward indefinitely for those generated from 2018 to 2021.

Certain activities not directly related to RSF and SIF's tax-exempt purposes are treated as unrelated business income, subject to federal and California corporate income taxes. For the years ended December 31, 2023 and 2022, federal and state income taxes on unrelated business income were not material.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 9 – Net Assets

Net assets without donor restrictions are the portion of net assets that have no use or time restrictions. This classification may also include reserves designated by the board of directors to be used to support day-to-day operations in the event of unforeseen shortfalls, to cover losses in the RSF Social Investment Fund and RSF Social Finance loan portfolios, and to pay for expenditures to build long-term capacity or infrastructure.

As of December 31, 2023 and 2022, net assets without donor restrictions had no board-designated reserves.

Contributions received by RSF with restrictions are related to donor-imposed time or purpose restrictions. As of December 31, 2023 and 2022, net assets with donor restrictions consist of the following:

	<u>2023</u>	<u>2022</u>
Donor-restricted funds for RSF Shared Risk Program	\$ 50,000	\$ 50,000
Donor-restricted funds for RSF Revolving Capital Permanent Fund	100,000	100,000
Other donor-restricted funds	-	134,175
	<u> </u>	<u> </u>
Total	<u>\$ 150,000</u>	<u>\$ 284,175</u>

Net assets with donor restrictions are released from their restrictions once the time or purpose restriction is satisfied as specified by the donor.

Net assets released from donor restrictions were \$134,175 and \$24,478 for the years ended December 31, 2023 and 2022, respectively.

Note 10 – Commitments

As of December 31, 2023, RSF has the following commitments:

Lease and membership agreement – In May 2022, RSF entered into a new one-year membership agreement for shared office space in San Francisco, California. The membership agreement expired April 2023, and RSF did not renew the membership.

Beginning May 1, 2023, RSF leased an office facility in San Francisco, California, under a noncancelable operating lease for a duration of 38 calendar months. The operating lease requires minimum monthly rental payments of \$5,896 for the first year with 3% annual increases. The related expense under the membership agreement and lease for the years ended December 31, 2023 and 2022, was \$90,979 and \$77,065, respectively. The office lease is insignificant to the consolidated financial statements.

Note 11 – Related-Party Transactions

Investments – RSF's investments consist of investments of which certain members of the board of directors are either board members of these companies and/or serve in an advisory capacity for certain members of the limited liability companies/nonprofit organizations.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Cash and cash equivalents – RSF has two deposit accounts with Amalgamated Bank. Mark Finser, former RSF Board Member and former RSF Board Chair, with his term ending in 2018, is a director of Amalgamated Bank. The balances of the accounts were approximately \$5,090,000 and \$5,029,000 at December 31, 2023 and 2022, respectively.

Note receivable – On June 3, 2015, CMP entered into a Split-Dollar Loan Agreement (the Loan Agreement) with one of its key employees (Employee) pursuant to which CMP agreed to make seven interest bearing, nonrecourse \$200,000 loans (Split Dollar Loans) to Employee over seven years. \$200,000 was funded in each year beginning in 2015. The interest rate on the first Split Dollar Loan was 2.50%, and the interest rate on the remaining Split Dollar Loans were set at the Applicable Federal Rate per Treas. Reg. Section 1.7872-15(e)(4)(ii) on the date such Split Dollar Loans were funded. On September 30, 2018, upon the no-cause termination of Employee’s contract, CMP was released from further obligation to make additional Split Dollar Loans. Accordingly, the first Split Dollar Loan was made to Employee on June 3, 2015, and subsequent Split Dollar Loans were made on or about May 12th of 2016 to 2018, for a total of \$800,000 in Split Dollar Loans. Each Split Dollar Loan was (1) made in the form of a premium payment to John Hancock Life Insurance Company to fund a life insurance policy (the Policy) with a face amount of \$2,981,078 on the life of Employee, and (2) evidenced by a Promissory Note for Split Dollar Loan executed by Employee in favor of CMP.

The Split Dollar Loans fund all of the planned premiums for the Policy and are secured by a Collateral Assignment of Life Insurance Policy pursuant to which Employee assigned CMP an interest on the Policy, which provides that in the event of the death of Employee, the termination or surrender of the Policy, or the termination of the Loan Agreement, CMP is entitled to receive from the proceeds of the Policy the cumulative balance of principal and interest then owing on the Split Dollar Loans. The Loan Agreement is structured as nonrecourse in that should the Split Dollar Loans’ aggregate principal and interest balance exceed the proceeds from death benefit, surrender or other settlement of the Policy, Employee would not be obligated to repay CMP for the excess. Therefore, the asset carried by CMP is limited to the cash surrender value of the Policy, which was \$765,340 and \$762,306 as of December 31, 2023 and 2022, respectively, and is included in prepaid expense and other assets on the consolidated statements of financial position.

Note 12 – Retirement Plan

RSF has established a defined contribution plan and a retirement annuity money purchase plan covering all RSF full-time employees. RSF’s contribution to (the Plan) was a flat rate of \$2,500 per employee for the years ended December 31, 2023 and 2022. For the years ended December 31, 2023 and 2022, RSF contributed approximately \$47,000 and \$33,000, respectively, to the retirement plan.

RSF Social Finance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 13 – Risks and Uncertainties

Concentration of credit risk – Financial instruments, which potentially subject RSF to concentration of credit risk, consist principally of cash and cash equivalents with high credit quality financial institutions, investments, and loans receivable. These instruments are also subject to other market risk conditions such as interest rate risk, equity market risks and their implied volatilities, mortgage risks, and market liquidity and funding risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and such changes could materially affect total net assets and the amounts reported in the consolidated statements of financial position.

Cash and cash equivalents on deposit with financial institutions are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for all interest and noninterest bearing cash accounts at all FDIC-insured financial institutions and/or by the Securities Investor Protection Corporation (SIPC) as of December 31, 2023 and 2022. At various times during 2023 and 2022, RSF had cash balances in excess of the insured limits. RSF has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk to cash.

As of the years ended December 31, 2023 and 2022, RSF's cash and cash equivalent balances with two financial institutions comprised 85% and 95% of total cash and cash equivalents, respectively.

For the year ended December 31, 2023, RSF received 30% of its gifts and contributions from 2 donors. For the year ended December 31, 2022, RSF received 10% of its gifts and contributions from 1 donor.

Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are available to be issued. RSF recognizes in the consolidated financial statements the effects of all significant subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements.

RSF evaluated subsequent events through June 4, 2024, the date the consolidated financial statements were available to be issued and have determined that there are no subsequent events that require additional disclosure.

