
THE IMPACT FUND

FINANCIAL STATEMENTS

June 30, 2018

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

CROSBY & KANEDA
Certified Public Accountants

Dedicated to Nonprofit Organizations

THE IMPACT FUND

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Impact Fund
Berkeley, California

Report on the Financial Statements

We have audited the accompanying financial statements of The Impact Fund, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses 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.

Auditors' 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 The Impact Fund as of June 30, 2018, 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.

Report on Summarized Comparative Information

We have previously audited The Impact Fund's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Croody & Lameda CPAs LLP

Oakland, California

October 24, 2018

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Statement of Financial Position June 30, 2018 (With Comparative Totals as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,007,472	\$ 364,329
Investments (Note 3)	1,193,647	1,184,173
Accounts receivable	2,500	2,500
Prepaid expenses	29,976	21,622
Total Current Assets	<u>2,233,595</u>	<u>1,572,624</u>
Property and equipment, net (Note 5)	<u>12,431</u>	<u>12,328</u>
Total Assets	<u>\$ 2,246,026</u>	<u>\$ 1,584,952</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 89,349	\$ 39,218
Accrued vacation	21,320	28,982
Deferred revenue (Note 12)	185,597	253,084
Deposit held	1,150	1,150
Total Liabilities	<u>297,416</u>	<u>322,434</u>
Commitments and Contingencies (Notes 6 and 7)		
Net Assets		
Unrestricted (Note 8)	1,396,110	1,251,419
Temporarily restricted (Note 9)	552,500	11,099
Total Net Assets	<u>1,948,610</u>	<u>1,262,518</u>
Total Liabilities and Net Assets	<u>\$ 2,246,026</u>	<u>\$ 1,584,952</u>

See Notes to the Financial Statements

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**Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

	Unrestricted	Temporarily Restricted	Total	
			2018	2017
Support and Revenue				
Support				
Individual and firm contributions	\$ 65,965	\$ 45,844	\$ 111,809	\$ 200,006
State bar grants	324,365		324,365	174,089
Foundation and community grants		594,156	594,156	21,099
Cy Pres awards	809,715		809,715	134,099
Special event, net	46,114		46,114	30,727
Total Support	<u>1,246,159</u>	<u>640,000</u>	<u>1,886,159</u>	<u>560,020</u>
Revenue				
Reimbursable grants (Note 11)	131,243		131,243	106,252
Interest on grants	12,968		12,968	2,969
Seminars and education	166,137		166,137	118,485
Impact litigation services			-	38,306
Investment activity (Note 3)	18,309		18,309	146,895
Other	6,319		6,319	7,527
Total Revenue	<u>334,976</u>	<u>-</u>	<u>334,976</u>	<u>420,434</u>
Net assets released from donor restrictions (Note 9)	98,599	(98,599)	-	-
Total Support and Revenue	<u>1,679,734</u>	<u>541,401</u>	<u>2,221,135</u>	<u>980,454</u>
Expenses				
Program				
Legal	403,234		403,234	456,669
Education	234,212		234,212	223,775
Grantmaking	333,241		333,241	355,554
Total Program	<u>970,687</u>		<u>970,687</u>	<u>1,035,998</u>
Management and general	280,329		280,329	230,166
Fundraising	284,027		284,027	240,381
Total Expenses	<u>1,535,043</u>	<u>-</u>	<u>1,535,043</u>	<u>1,506,545</u>
Change in Net Assets	144,691	541,401	686,092	(526,091)
Net Assets, beginning of year	<u>1,251,419</u>	<u>11,099</u>	<u>1,262,518</u>	<u>1,788,609</u>
Net Assets, end of year	<u>\$ 1,396,110</u>	<u>\$ 552,500</u>	<u>\$ 1,948,610</u>	<u>\$ 1,262,518</u>

See Notes to the Financial Statements

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Statement of Cash Flows For the Year Ended June 30, 2018 (With Comparative Totals for the Year Ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 686,092	\$ (526,091)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	4,339	2,641
Investment activity	(18,309)	(146,895)
Change in assets and liabilities:		
Accounts receivable	-	(340)
Prepaid expenses	(8,354)	54
Accounts payable and accrued expenses	50,131	19,397
Accrued vacation	(7,662)	(9,097)
Deferred revenue	(67,487)	(87,173)
Net cash provided (used) by operating activities	<u>638,750</u>	<u>(747,504)</u>
Cash flows from investing activities:		
Proceeds from investments to operating accounts	-	650,000
Proceeds from investments for fees	8,835	13,171
Acquisition of property and equipment	(4,442)	-
Net cash provided (used) by investing activities	<u>4,393</u>	<u>663,171</u>
Net change in cash and cash equivalents	643,143	(84,333)
Cash and cash equivalents, beginning of year	<u>364,329</u>	<u>448,662</u>
Cash and cash equivalents, end of year	<u>\$ 1,007,472</u>	<u>\$ 364,329</u>

See Notes to the Financial Statements

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**Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

	Program	Management and General	Fundraising	Total	
				2018	2017
Salaries	\$ 429,058	\$ 149,820	\$ 117,598	\$ 696,476	\$ 744,752
Retirement contributions	46,203	16,133	12,664	75,000	4,568
Other employee benefits	26,552	20,167	17,283	64,002	66,594
Payroll taxes	34,981	12,944	8,787	56,712	57,126
Total personnel	<u>536,794</u>	<u>199,064</u>	<u>156,332</u>	<u>892,190</u>	<u>873,040</u>
Grant making	218,500	-	-	218,500	249,000
Legal	1,966	13,613	-	15,579	12,691
Accounting fees	-	9,500	-	9,500	6,500
Other professional services	1,591	11,835	29,309	42,735	55,624
Advertising and promotion	2,580	72	15,102	17,754	18,353
Office supplies and expense	18,530	9,514	18,188	46,232	43,745
Information technology	14,558	2,593	15,882	33,033	22,055
Occupancy	42,054	18,981	10,598	71,633	70,557
Travel and meals	48,878	3,748	6,382	59,008	57,511
Conferences and meetings	46,939	93	27,719	74,751	60,062
Insurance	2,474	1,928	631	5,033	4,580
Dues, licenses, service fees	27,201	1,439	3,332	31,972	24,846
Depreciation	-	4,339	-	4,339	2,641
Miscellaneous	8,622	3,610	552	12,784	5,340
Total Expenses	<u>\$ 970,687</u>	<u>\$ 280,329</u>	<u>\$ 284,027</u>	<u>\$ 1,535,043</u>	<u>\$ 1,506,545</u>

See Notes to the Financial Statements

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Notes to the Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for the Year Ended June 30, 2017)

NOTE 1: NATURE OF ACTIVITIES

The Impact Fund (the Organization) is a California nonprofit public benefit corporation founded in 1992. The Organization supports class action public interest litigation and awards grants in the areas of human and civil rights, environmental justice, and poverty law. The Organization also provides technical support, advice, counseling, training, and representation to public interest lawyers. In addition, the Organization acts as co-counsel in appropriate class action cases as well as filing amicus or "friend of the court" briefs in cases affecting impact litigation or civil rights enforcement.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

The Organization presents information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The three classes are differentiated by donor restrictions.

Unrestricted net assets – consist of resources which have not been specifically restricted by a donor. Unrestricted net assets may be designated for specific purposes by the Organization or may be limited by contractual agreements with outside parties.

Temporarily restricted net assets – represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations..

Permanently restricted net assets – represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, other asset enhancements and diminishments subject to the same kinds of stipulations or reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations. There were no permanently restricted net assets as of June 30, 2018.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

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Notes to the Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for the Year Ended June 30, 2017)

Unrestricted contributions and grants are recorded as unrestricted revenue when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d). The Organization has evaluated its current tax positions as of June 30, 2018 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

Contributed Services

Contributed services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. There were no contributed services that met the criteria for recognition for the year ended June 30, 2018.

Accounts Receivable

The Organization considers all accounts receivable to be fully collectible at June 30, 2018. Accordingly, no allowance for doubtful accounts was deemed necessary. If amounts become uncollectible, they are charged to expense in the period in which that determination is made.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all operating cash held in banks or certificates of deposit with original maturity dates of three months or less to be cash equivalents. Cash and cash equivalents held in investment accounts for investment purposes are classified with investment balances. For purposes of the statement of cash flows the Organization treats transfers of funds to the investment account as

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Notes to the Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for the Year Ended June 30, 2017)

purchases of investments, and withdrawals from the investment account into its operating account as proceeds from investments.

Concentration of Credit Risk

At times, the Organization may have deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions.

Property and Equipment

Property and equipment purchased by the Organization is recorded at cost. The Organization capitalizes all expenditures for property and equipment over \$2,500; the fair value of donated fixed assets is similarly capitalized. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment or the related lease terms as follows:

Furniture and equipment	5 years
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Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable.

Deferred Revenue

Deferred revenue consists of funds received as the result of a litigation action to pay for future costs which may be incurred by the Organization in resolving the legal matter.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior year's summarized information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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Notes to the Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for the Year Ended June 30, 2017)

Subsequent Events

The Organization has evaluated subsequent events and has concluded that as of October 24, 2018 the date that the financial statements were available to be issued, there were no significant subsequent events to disclose.

NOTE 3: INVESTMENTS

Investments are stated at fair value and consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 124,389	\$ 64,823
Equities	556,094	652,672
Mutual funds and ETFs and trusts	38,900	96,791
Fixed income	200,401	196,625
Treasuries	<u>273,863</u>	<u>173,262</u>
Total	<u>\$ 1,193,647</u>	<u>\$ 1,184,173</u>

Investment activity consisted of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Realized gain (loss)	\$ (3,434)	\$ 21,710
Unrealized gain (loss)	5,082	90,864
Interest and dividends	<u>16,661</u>	<u>34,321</u>
Total	<u>\$ 18,309</u>	<u>\$ 146,895</u>

The Organization reports investment management fees with other fee for service expenses.

Credit Risk

The Organization's investment policy limits fixed income holdings to investment grade securities. Ratings by Standard and Poor's for the Organization's fixed income portfolio holdings were as follows as of June 30:

	<u>2018</u>	<u>2017</u>
A	\$ 9,857	\$ 19,974
AA	98,891	-
BBB	<u>91,653</u>	<u>176,651</u>
Total	<u>\$ 200,401</u>	<u>\$ 196,625</u>

Interest Rate Risk

The prices of fixed-income securities may be sensitive to changes in interest rates. The average time to maturity for the Organization's bond holdings were approximately 1.2 years for fixed income holdings.

NOTE 4: FAIR VALUE DISCLOSURE

The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

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Notes to the Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for the Year Ended June 30, 2017)

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 - Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the assets or liability.

Fair values of assets measured on recurring basis were as follows as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash and cash equivalents	\$ 124,389	\$ -	\$ 124,389
Equities			
Consumer	103,718	-	103,718
Financial services	96,617	-	96,617
Healthcare	64,783	-	64,783
Utilities and materials	43,893	-	43,893
Information technology	145,208	-	145,208
Telecommunications	12,221	-	12,221
Industrials	84,075	-	84,075
Mutual funds, ETFs & trusts:			
REITs	19,609	-	19,609
Fixed income			
Corporate bonds	-	101,510	101,510
Agency bonds	98,891	-	98,891
Bond funds	24,870	-	24,870
Treasuries	<u>273,863</u>	<u>-</u>	<u>273,863</u>
Total	<u>\$ 1,092,137</u>	<u>\$ 101,510</u>	<u>\$ 1,193,647</u>

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 25,957	\$ 21,515
Less accumulated depreciation	<u>(13,526)</u>	<u>(9,187)</u>
Total	<u>\$ 12,431</u>	<u>\$ 12,328</u>

NOTE 6: COMMITMENTS

Operating Leases

The Organization is on month to month lease-agreements pending renewal of their leases.

Rent expense was \$71,633 and \$70,556 for the years ended June 30, 2018 and 2017, respectively.

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**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

Refundable Grant Commitments

The Organization records grants made as grant expense once the grant has been approved by the Grants Advisory Committee of the board and the recipient has satisfied the conditions necessary to receive the grant. Such conditions may include a case filing requirement or acceptance of refundable grant terms and potential interest charges.

Grants approved by the grant committee as committed for which the conditions of the refundable grant have not been met were as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Outstanding > 1 year	\$ -	\$ 25,000
Outstanding < 1 year	<u>100,000</u>	<u>56,000</u>
Total	<u>\$ 100,000</u>	<u>\$ 81,000</u>

NOTE 7: CONTINGENCIES

Grant Awards

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

Post Settlement Activity

The Organization and co-counsel in a legal matter received funds to administer a post settlement claims process among other activities. In the event such funds are exhausted the Organization and co-counsel may be required to contribute additional amounts to support this activity. No reasonable estimates of the amounts of such contribution, if any, are currently available, and management of the Organization is of the opinion that it is not probable that such costs would result in material expense to the Organization.

Retirement Plan Contributions

The Organization identified an ambiguity regarding retirement plan eligibility between the plan document and the employee handbook which had been changed over time. The Organization engaged a consultant to calculate additional amounts potentially due for all employees potentially affected. The Organization has accrued \$75,000 in additional retirement plan contributions during the year ended June 30, 2018. The final amount of such catchup contributions may vary from this amount.

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**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

NOTE 8: UNRESTRICTED NET ASSETS

Unrestricted net assets consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Board Designated – Quasi Endowment	\$ 1,000,000	\$ 1,000,000
Undesignated	<u>396,110</u>	<u>251,419</u>
Total	<u>\$ 1,396,110</u>	<u>\$ 1,251,419</u>

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Law fellowships	\$ -	\$ 11,099
LGBT	60,000	-
Clean Water	42,500	-
Just Earth	<u>450,000</u>	<u>-</u>
Total	<u>\$ 552,500</u>	<u>\$ 11,099</u>

Temporarily restricted net assets were released from donor restriction by incurring expenses satisfying the purposes specified by donors as follows during the years ended June 30:

	<u>2018</u>	<u>2017</u>
Law fellowships	\$ 11,099	\$ 74,621
Clean Water and other	<u>87,500</u>	<u>174,089</u>
Total	<u>\$ 98,599</u>	<u>\$ 248,710</u>

NOTE 10: RETIREMENT PLAN

The Organization has established a Simplified Employee Pension (SEP) Plan for its employees. The SEP is subject to the provisions of the Internal Revenue Code Section 408(k). The Organization makes discretionary contributions for eligible employees which totaled \$75,000 and \$4,568 for the years ended June 30, 2018 and 2017, respectively.

NOTE 11: REIMBURSABLE GRANTS

Grants made to support public interest litigation are reimbursable to the Organization in certain circumstances. In the event the grantee recovers attorney's fees and/or costs by settlement, judgment or otherwise, the Organization requires repayment of the grant with interest. The Organization, at its sole discretion, may waive the interest charge and/or a portion of the amount to be reimbursed if its management concludes that because of a limited fee and/or cost recovery, it would be appropriate to do so. The Organization records grants as an expense in the period conditions for an award are satisfied including approval by the Grants Advisory Committee. Grant repayment and related interest is recorded as revenue in the period received as the possibility and amount of future reimbursements is not predictable and may depend on success in litigation or other factors.

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**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

NOTE 12: DEFERRED REVENUE

As part of the Organization's settlement in a legal case against a national wholesaler the Organization received funds to administer a claims process and monitor programmatic relief in collaboration co-counsel.

Activity of the resulting funds for costs and fees for this post settlement activity was as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Opening balance	\$ 253,084	\$ 340,257
Less: Costs paid	<u>(67,487)</u>	<u>(87,173)</u>
Ending balance	<u>\$ 185,597</u>	<u>\$ 253,084</u>

NOTE 13: OUTREACH SUPPORT

In addition to the amounts recognized for financial statement reporting purposes, the Organization received approximately \$227,842 and \$460,537 in donated advertising services during the years ended June 30, 2018 and 2017, respectively, which assisted the Organization in engaging with a broader audience. The Organization would not have otherwise purchased such advertising service and such amounts are not recognized for financial statement purposes.