

**SOCIAL FINANCE, INC.  
AND AFFILIATES**

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CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

## SOCIAL FINANCE, INC. AND AFFILIATES

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Social Finance, Inc. and Affiliates

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of Social Finance, Inc. (a not-for-profit organization) and Affiliates (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Social Finance, Inc. and Affiliates as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**MBAF CPAs, LLC**

New York, NY  
May 04, 2016

**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
Cash	\$ 12,375,539	\$ 9,026,084
Restricted cash (Social Impact Bond first-loss guarantee)	1,320,200	1,320,200
Pledges receivable	-	1,312,077
Accounts receivable	429,253	1,023
Prepaid expenses	33,323	52,913
Security deposit	127,101	55,000
Property and equipment, net	34,554	23,873
	<b>\$ 14,319,970</b>	<b>\$ 11,791,170</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 722,202	\$ 437,052
Deferred rent	-	28,207
Deferred revenue	28,125	-
Contributions paid in advance	-	149,641
Social Impact Bond first-loss guarantee	1,320,200	1,320,200
<b>TOTAL LIABILITIES</b>	<b>2,070,527</b>	<b>1,935,100</b>
<b>NET ASSETS</b>		
Unrestricted net assets		
Controlling	6,036,320	5,709,705
Non-controlling	5,991,463	3,345,218
Total unrestricted net assets	12,027,783	9,054,923
Temporarily restricted net assets	221,660	801,147
<b>TOTAL NET ASSETS</b>	<b>12,249,443</b>	<b>9,856,070</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 14,319,970</b>	<b>\$ 11,791,170</b>

The accompanying notes are an integral part of the consolidated financial statements.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUES</b>		
Foundation grants	\$ 1,572,898	\$ 4,145,081
Individual donations	548,050	426,050
Social investment and advisory fees	2,020,596	231,900
In-kind contributions	651,049	409,371
Other income	8,137	18,916
Net assets released from restrictions	<u>579,487</u>	<u>1,772,597</u>
<b>TOTAL SUPPORT AND REVENUES</b>	<u>5,380,217</u>	<u>7,003,915</u>
<b>EXPENSES</b>		
Program:		
Social investment and advisory services	7,753,126	5,983,491
Market education	551,786	475,650
Support:		
General and administrative	711,958	503,217
Fundraising	<u>58,487</u>	<u>81,673</u>
<b>TOTAL EXPENSES</b>	<u>9,075,357</u>	<u>7,044,031</u>
<b>CHANGE IN NET ASSETS - UNRESTRICTED</b>	<u>(3,695,140)</u>	<u>(40,116)</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUES</b>		
Foundation grants	-	2,064,962
Net assets released from restrictions	<u>(579,487)</u>	<u>(1,772,597)</u>
<b>CHANGE IN NET ASSETS - TEMPORARILY RESTRICTED</b>	<u>(579,487)</u>	<u>292,365</u>
<b>TOTAL CHANGE IN NET ASSETS</b>		
Consolidated	(4,274,627)	252,249
Less: Loss attributable to non-controlling interest	<u>(4,021,755)</u>	<u>(3,154,782)</u>
<b>CHANGE IN NET ASSETS ATTRIBUTABLE TO SOCIAL FINANCE, INC.</b>	<u>\$ (252,872)</u>	<u>\$ 3,407,031</u>

The accompanying notes are an integral part of the consolidated financial statements.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Services		Supporting Services		Total
	Social Investment and Advisory Services	Market Education	General and Administrative	Fundraising	
FUNCTIONAL EXPENSES					
Salaries	\$ 1,793,303	\$ 222,433	\$ 434,219	\$ 44,579	\$ 2,494,534
Payroll taxes and employee benefits	302,489	35,382	73,468	4,543	415,882
Professional services	300,891	131,106	64,446	4,774	501,217
Occupancy	112,855	10,903	19,928	1,575	145,261
Travel and entertainment	136,836	76,884	17,225	610	231,555
Technology	58,578	45,779	17,698	772	122,827
Office	92,521	15,332	19,867	1,232	128,952
Marketing	13,908	13,030	3,201	194	30,333
Grants expense	381,607	-	-	-	381,607
In-kind	581,873	-	69,176	-	651,049
Depreciation	7,499	937	1,771	208	10,415
Other	-	-	(10,030)	-	(10,030)
Bank charges - NYS CEO LLC	-	-	989	-	989
Program fees - NYS CEO LLC	3,970,766	-	-	-	3,970,766
<b>TOTAL EXPENSES</b>	<b>\$ 7,753,126</b>	<b>\$ 551,786</b>	<b>\$ 711,958</b>	<b>\$ 58,487</b>	<b>\$ 9,075,357</b>

The accompanying notes are an integral part of the consolidated financial statements.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Social Investment and Advisory Services</u>	<u>Market Education</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
FUNCTIONAL EXPENSES					
Salaries	\$ 1,081,119	\$ 156,686	\$ 303,337	\$ 55,304	\$ 1,596,446
Payroll taxes and employee benefits	192,065	29,133	55,865	10,103	287,166
Professional services	65,478	192,767	48,938	95	307,278
Occupancy	72,805	11,393	24,983	4,016	113,197
Travel and entertainment	104,290	42,096	8,235	2,387	157,008
Technology	35,452	6,539	14,150	1,716	57,857
Office	61,856	6,963	15,679	2,263	86,761
Marketing	469	14,029	5,683	126	20,307
Grants expense	902,245	-	-	-	902,245
In-kind	358,902	15,345	29,708	5,416	409,371
Depreciation	4,826	699	1,354	247	7,126
Other	-	-	(5,513)	-	(5,513)
Bank charges - NYS CEO LLC	-	-	798	-	798
Program fees - NYS CEO LLC	3,103,984	-	-	-	3,103,984
<b>TOTAL EXPENSES</b>	<b>\$ 5,983,491</b>	<b>\$ 475,650</b>	<b>\$ 503,217</b>	<b>\$ 81,673</b>	<b>\$ 7,044,031</b>

The accompanying notes are an integral part of the consolidated financial statements.



**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	Unrestricted Net Assets			Temporarily Restricted Net Assets	Total Net Assets
	Controlling	Non- Controlling	Total		
<b>BALANCE AT JANUARY 1, 2014</b>	\$ 2,595,039	\$ 6,500,000	\$ 9,095,039	\$ 508,782	\$ 9,603,821
Change in net assets	3,114,666	(3,154,782)	(40,116)	292,365	252,249
<b>BALANCE AT DECEMBER 31, 2014</b>	5,709,705	3,345,218	9,054,923	801,147	9,856,070
Capital contributions from investor members	-	6,668,000	6,668,000	-	6,668,000
Change in net assets	326,615	(4,021,755)	(3,695,140)	(579,487)	(4,274,627)
<b>BALANCE AT DECEMBER 31, 2015</b>	<b>\$ 6,036,320</b>	<b>\$ 5,991,463</b>	<b>\$ 12,027,783</b>	<b>\$ 221,660</b>	<b>\$ 12,249,443</b>

The accompanying notes are an integral part of the consolidated financial statements.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (4,274,627)	\$ 252,249
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	10,415	7,126
Loss on disposal of property and equipment	3,535	-
Deferred rent	(28,207)	4,866
Changes in operating assets and liabilities:		
Pledges receivable	1,312,077	(717,077)
Prepaid expenses	19,590	113,578
Security deposit	(72,101)	-
Accounts receivable	(428,230)	18,977
Accounts payable and accrued expenses	285,150	32,851
Deferred revenue	28,125	-
	<u>(3,144,273)</u>	<u>(287,430)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(24,631)</u>	<u>(18,977)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contributions from investor members	<u>6,518,359</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	3,349,455	(306,407)
<b>CASH - BEGINNING OF YEAR</b>	<u>9,026,084</u>	<u>9,332,491</u>
<b>CASH - END OF YEAR</b>	<b><u>\$ 12,375,539</u></b>	<b><u>\$ 9,026,084</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

## SOCIAL FINANCE, INC. AND AFFILIATES

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### 1. NATURE OF THE ORGANIZATION

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Founded in January 2011, Social Finance US ("SFI") is a 501(c)(3) nonprofit organization dedicated to mobilizing capital to drive social progress. Social Finance believes that everyone deserves the opportunity to thrive, and that social impact financing can play a catalytic role in creating these opportunities. As a Pay for Success intermediary, SFI has built upon the work of its sister organization, Social Finance UK, which pioneered the first Social Impact Bond in the world in 2010.

Pay for Success ("PFS") is an innovative model to fund social programs. The model enables federal, state, and local governments ("Payors"), or other organizations that care for populations in need, to draw in greater resources to tackle social problems by tapping private investments for the upfront costs of social programs. Payors work with high-performing providers, such as nonprofits and charities, along with intermediary organizations, to identify targets for measurably improving outcomes through a PFS contract. If the program is successful in delivering services that improve the lives of the program participants, then government repays those who put up the original investment, plus a modest return. PFS mechanisms are also sometimes referred to as Social Impact Bonds, or outcomes-based financing.

As the intermediary in a PFS project, SFI acts as a coordinator and project manager for government, service providers, and impact investors, driving the design, negotiation, and financial structure of the project. SFI also coordinates the necessary capital from multiple sources for the PFS project and performs ongoing investor relations and active performance management services.

#### **SFI's programs consist of the following:**

##### Advisory Services and Social Investment

The Advisory Services team partners with governments and foundations to assess promising programs that could benefit from PFS financing. SFI identifies best-in-class interventions, executes economic analyses, performs due diligence, and explores opportunities to scale high performing nonprofits to achieve better outcomes for communities in need.

The Social Investment team works with government to develop PFS projects across several workstreams, including program design, data and evaluation, economics, and finance and legal. These projects aim to improve social outcomes and generate financial returns. SFI also mobilizes capital to support PFS projects, putting capital to work in service of society. Additionally, SFI plays a role in active performance management to ensure projects stay on track and drive positive results for communities in need.

##### Market Education

Through research, advocacy, and publications, SFI supports the development of the PFS market and the broader impact investment movement.

##### Social Finance Affiliates

SFI oversees two affiliates through common management, Social Finance District of Columbia Teen Pregnancy Prevention and Educational Attainment 2014 Manager, Inc. ("DC Wyman Manager") and Social Finance NY State Workforce Re-Entry 2013 Manager, Inc. ("NYS CEO Manager"), which are Delaware nonprofit non-stock corporations. DC Wyman Manager had no revenues or expenses in 2015 or 2014 and is expected to be dissolved in 2016. NYS CEO Manager is the managing member of Social Finance NY State Workforce Re-entry 2013 LLC, a for-profit limited liability company (the "NYS CEO LLC"). NYS CEO Manager is presumed to control the LLC for consolidation purposes in the absence of substantive participating rights and substantive kick out rights held by the investor members (see Note 3). The LLC was organized on September 25, 2013. The NYS CEO LLC's purpose is to lessen the burdens of the government of New York State by reducing recidivism and increasing employment of formerly incarcerated individuals with the objective that NYS CEO Manager will receive the outcome payments payable under the contract (the "PFS Agreement") with New York State Department of Labor (the "NYSDOL") for the Pay for Success Project (the "PFS Project") for the benefit of investors in NYS CEO LLC. The NYS CEO LLC's activities are limited to deploying investor funds for PFS Project costs and receiving outcome payments for distribution to members of the NYS CEO LLC, in each case pursuant to the terms and conditions of the PFS Agreement.

## SOCIAL FINANCE, INC. AND AFFILIATES

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### 1. NATURE OF THE ORGANIZATION (CONTINUED)

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The NYS CEO PFS Project is an innovative way to finance the growth of evidence-based services in order to improve social outcomes while producing public-sector savings and benefits. This is accomplished through the NYS CEO LLC issuing equity interests to investor members, with the proceeds of such equity interests being used to cover operating costs associated with the PFS Project. Investor members accept the risk of loss of their investment if certain outcomes are not achieved by the PFS Project. There are two phases to the PFS Project, with Phase I anticipated to span from inception of the NYS CEO LLC through year four and Phase II to span from year three through the end of the PFS Project, which is anticipated to be in 2019. The NYS CEO LLC will dissolve after all payments have been made in full to NYS CEO Manager for the benefit of NYS CEO LLC investors and all funds have been distributed back to the investor members.

The PFS Agreement is dated October 1, 2013 and is among the NYSDOL, SFI, and NYS CEO Manager whereby NYSDOL will make payments, if any, of up to \$21,543,853 total for both Phase I and Phase II based on the level of outcomes achieved. For Phase I, it is anticipated that payments up to \$11,095,000 would be funded out of a \$12,000,000 Grant from the U.S Department of Labor ("USDOL"). During the years ending December 31, 2015 and 2014, the LLC disbursed total amounts of \$3,970,766 and \$3,103,984, respectively, to fund the PFS project.

Under the NYS PFS Project, the NYSDOL will comply with the requirements of the USDOL Grant and use reasonable efforts to ensure the cooperation and assistance required by SFI to perform its functions. The New York State Department of Corrections and Community Supervision will provide information, access, referrals and interact with the service provider in the provision of its services. The Center for Employment Opportunities will serve as the service provider for the project and will provide its evidence-based employment intervention to 2,000 high-risk, formerly incarcerated individuals.

All significant intercompany accounts and transactions between SFI, DC Wyman Manager, NYS CEO Manager and the NYS CEO LLC (collectively, the "Organization") have been eliminated in consolidation.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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##### Financial Statement Presentation

The Organization's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the Organization's net assets and its revenue, support, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization 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.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include contributions, support, and investment interest income that will be used by the Organization in connection with its mission as designated by the Board of Directors.

## SOCIAL FINANCE, INC. AND AFFILIATES

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Revenue Recognition

Grants and contributions are recognized as revenue when they are received or unconditionally pledged. Grants and contributions received with conditions are recognized as revenue when such conditions are met. Advisory fees are recognized as revenue as services are performed and billable.

### Pledges and Accounts Receivable

Pledges receivable represent unconditional promises to give by donors. At December 31, 2015, the Organization had no pledges receivable. At December 31, 2014, the Organization had pledges receivable of \$1,312,077, which were received in 2015. The Organization uses the allowance method to determine uncollectible pledges receivable. Such allowance may be provided based upon management's judgment as various pledges are based on the achievement of the stated goals. At December 31, 2015 and 2014, the Organization had accounts receivable of \$429,253 and \$1,023, respectively. The Organization uses the allowance method to determine uncollectible accounts receivable. Such allowance is based on management's assessment of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions. At December 31, 2015 and 2014, the Organization has determined that no allowance for doubtful accounts is necessary for pledges and accounts receivable.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Organization has established a \$1,000 threshold above which assets are capitalized.

### In-Kind Contributions

The Organization recognizes contributions of donated services when they create or enhance nonfinancial assets or require specialized skills that would typically need to be purchased if not provided by donation. Such services are recorded as contributions in-kind at their values based on market values of services donated. Contributions are recorded in the period received.

### Rent Expense

The Organization records rent expense on a straight-line basis over the life of the lease.

### Functional Allocation of Expenses

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

### Use of Estimates

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

### Income Tax

#### SFI, DC Wyman Manager and NYS CEO Manager

SFI is recognized as an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. DC Wyman Manager and NYS CEO Manager were established as nonprofit, non-stock corporations.

## SOCIAL FINANCE, INC. AND AFFILIATES

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Income Tax (Continued)

#### Social Finance NY State Workforce Reentry 2013, LLC

No provision has been made for federal and state income taxes in the accompanying consolidated financial statements since the LLC is treated as a partnership for tax purposes and each member includes its proportionate share of income, loss or credit in its respective income tax return for all tax jurisdictions. The LLC is considered a pass-through entity for all applicable jurisdictions. As a pass-through entity, income tax is attributable to the members and any income tax amounts due to or from each jurisdiction are classified as transactions with the members.

#### The Organization

The Organization follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for de-recognition, classification, interest and penalties, disclosure, and transition.

Should there be interest on underpayment of income tax, the Organization would classify it as interest expense. The Organization would classify penalties in connection with underpayment of tax as other expense.

The Organization is subject to audit by tax authorities. The Organization believes that it has appropriate support for the positions taken on its tax returns. Management believes that its nonprofit status would be sustained upon examination. All tax filings remain open for examination.

### Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The Organization is currently evaluating the effect the update will have on its financial statements.

### Subsequent Events

The Organization has evaluated events through May 04, 2016, which is the date the consolidated financial statements were available to be issued.

## 3. NON-CONTROLLING INTEREST

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The Organization's non-controlling interest is comprised of the NYS CEO LLC's equity which is divided into three classes: Class A, consisting of Class A-1 and Class A-2; Class X; and Class M, consisting of the Managing Member. The members who hold Class A or Class X interests ("Investor Members") have no power or authority to control the business of the NYS CEO LLC or act on behalf of the NYS CEO LLC in connection with any matter. Class A and Class X Members have certain protective rights. Class M has the sole voting rights of the NYS CEO LLC.

If it made a single capital contribution in satisfaction of its entire capital commitment, the Class X Member is not obligated to make any additional capital contributions in response to any future capital call notices. The Class X Member has fulfilled its entire capital commitment for both Phase I and Phase II. The Phase II contribution of \$149,641 has been classified as a contribution paid in advance as of December 31, 2014. In July 2015, there was a Phase II capital call and this amount was reclassified as a capital contribution.

## SOCIAL FINANCE, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### 3. NON-CONTROLLING INTEREST (CONTINUED)

Each Member has made capital contributions in the aggregate amount of its capital commitment less any amount paid in respect of a placement fee, which is paid directly to the placement agent.

Each investor made capital contributions up to a certain capital commitment to the NYS CEO LLC. The total funded commitment as of December 31, 2015 and 2014 was \$13,368,000 and \$6,700,000, respectively, which represents Phase I and Phase II contributions of the PFS Project. As of December 31, 2015, no commitments were outstanding.

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31,:

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Life</u>
Computers and software	\$ 54,332	\$ 30,961	3-5 years
Furniture and fixtures	5,610	4,351	7 years
Leasehold improvements	1,515	5,050	5 years
	61,457	40,362	
Less: accumulated depreciation	(26,903)	(16,489)	
	<u>\$ 34,554</u>	<u>\$ 23,873</u>	

Depreciation expense for the years ended December 31, 2015 and 2014 was \$10,415 and \$7,126, respectively.

#### 5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31,:

	<u>2015</u>	<u>2014</u>
Purpose restricted	<u>\$ 221,660</u>	<u>\$ 801,147</u>

Net assets were released from restrictions by incurring expenses or by the passage of time, thus satisfying their restricted purposes during the years ended December 31, 2015 and 2014 as follows:

	<u>2015</u>	<u>2014</u>
Purpose restricted	\$ 579,487	\$ 1,672,597
Time restricted	-	100,000
	<u>\$ 579,487</u>	<u>\$ 1,772,597</u>

#### 6. SOCIAL IMPACT BOND FIRST-LOSS GUARANTEE AND RESTRICTED CASH

In 2012 and 2013, the Organization received a total of \$1,320,200 in grant funds that were to be used to fund the Social Impact Bond first-loss guarantee. These grant funds were segregated and transferred from SFI to an escrow account in the name of the NYS CEO LLC. The Social Impact Bond first-loss guarantee serves as a guarantee facility for certain members of the NYS CEO LLC should payments to such investors be less than their aggregate capital contributions. The funds have been designated as restricted cash and a corresponding liability has been recorded.

## SOCIAL FINANCE, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### 7. IN-KIND CONTRIBUTIONS

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During the years ended December 31, 2015 and 2014, the Organization recognized total in-kind contributions of \$651,049 and \$409,371, respectively, which consisted solely of professional services. These amounts are reflected as both support and expenses in the accompanying consolidated financial statements.

#### 8. RETIREMENT PLAN

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The Organization maintains a 403(b) voluntary contributory retirement plan offered to all regular employees on the date of hire. Employees are eligible to receive non-elective contributions after six months of employment and contributions are immediately vested. The Organization makes a discretionary contribution based on a predetermined percentage of the eligible employees' regular earnings. During the years ended December 31, 2015 and 2014, the total retirement expense consisting of employer contributions totaled \$32,952 and \$24,493, respectively.

#### 9. COMMITMENTS AND CONTINGENCIES

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The Organization entered into a six-year and three-month lease agreement effective February 1, 2013 with an option to renew for an additional five years. In July 2014, the Organization's lease was amended to include additional office space. The Organization was responsible for base rent and a percentage of operating expenses and real estate taxes commencing 90 days after the lease effective date. Subsequent to year end, this lease was terminated. As a result, the unamortized portion of deferred rent was included in rent expense for the year ended December 31, 2015.

The Organization entered into a new five-year and three-month lease agreement effective January 1, 2016 for the new space.

Future minimum lease payments related to the new lease are as follows:

Year Ending December 31,	
2016	\$ 200,430
2017	272,251
2018	278,932
2019	285,613
2020	292,294
Thereafter	<u>73,491</u>
	<u>\$ 1,403,011</u>

Rent expense for the years ended December 31, 2015 and 2014 was \$125,891 and \$105,265, respectively.

#### 10. CONCENTRATIONS

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- A. Financial instruments that potentially subject the Organization to a concentration of credit risk include cash accounts at two major financial institutions that, at times, exceed the Federal Deposit Insurance Corporation insured limits of \$250,000.
- B. For the year ended December 31, 2015, two donors contributed \$1,572,648 to the Organization which amounted to approximately 33% of the Organization's total support and revenue. For the year ended December 31, 2014, two donors contributed \$3,138,950 to the Organization which amounted to approximately 49% of the Organization's total support and revenue.
- C. There were no pledges receivable at December 31, 2015. Two grantors accounted for approximately 89% of pledges receivable at December 31, 2014.



## **SUPPLEMENTARY INFORMATION**

**SOCIAL FINANCE, INC. AND AFFILIATES**  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2015

ASSETS	Affiliates				Eliminations	Consolidated Total
	SFI	NYS CEO Manager	NYS CEO LLC	DC Wyman Manager		
Cash	\$ 6,283,793	\$ -	\$ 5,991,463	\$ 100,283	\$ -	\$ 12,375,539
Restricted cash (Social Impact Bond first-loss guarantee)	-	-	1,320,200	-	-	1,320,200
Accounts receivable	429,253	-	-	-	-	429,253
Due from Affiliate	100,283	-	-	-	(100,283)	-
Prepaid expenses	33,323	-	-	-	-	33,323
Security deposit	127,101	-	-	-	-	127,101
Property and equipment, net	34,554	-	-	-	-	34,554
	<b>\$ 7,008,307</b>	<b>\$ -</b>	<b>\$ 7,311,663</b>	<b>\$ 100,283</b>	<b>\$ (100,283)</b>	<b>\$ 14,319,970</b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 722,202	\$ -	\$ -	\$ -	\$ -	\$ 722,202
Due to SFI	-	-	-	100,283	(100,283)	-
Deferred revenue	28,125	-	-	-	-	28,125
Social Impact Bond first-loss guarantee	-	-	1,320,200	-	-	1,320,200
<b>TOTAL LIABILITIES</b>	<b>750,327</b>	<b>-</b>	<b>1,320,200</b>	<b>100,283</b>	<b>(100,283)</b>	<b>2,070,527</b>
<b>NET ASSETS</b>						
Unrestricted net assets						
Controlling	6,036,320	-	-	-	-	6,036,320
Non-controlling	-	-	5,991,463	-	-	5,991,463
Total unrestricted net assets	6,036,320	-	5,991,463	-	-	12,027,783
Temporarily restricted net assets	221,660	-	-	-	-	221,660
<b>TOTAL NET ASSETS</b>	<b>6,257,980</b>	<b>-</b>	<b>5,991,463</b>	<b>-</b>	<b>-</b>	<b>12,249,443</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,008,307</b>	<b>\$ -</b>	<b>\$ 7,311,663</b>	<b>\$ 100,283</b>	<b>\$ (100,283)</b>	<b>\$ 14,319,970</b>

See independent auditor's report.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2014**

<b>ASSETS</b>	<b>SFI</b>	<b>Affiliate</b>		<b>Eliminations</b>	<b>Consolidated Total</b>
		<b>NYS CEO Manager</b>	<b>NYS CEO LLC</b>		
Cash	\$ 5,531,225	\$ -	\$ 3,494,859	\$ -	\$ 9,026,084
Restricted cash (Social Impact Bond first-loss guarantee)	-	-	1,320,200	-	1,320,200
Pledges receivable	1,312,077	-	-	-	1,312,077
Accounts receivable	1,023	-	-	-	1,023
Prepaid expenses	52,913	-	-	-	52,913
Security deposit	55,000	-	-	-	55,000
Property and equipment, net	23,873	-	-	-	23,873
	<b>\$ 6,976,111</b>	<b>\$ -</b>	<b>\$ 4,815,059</b>	<b>\$ -</b>	<b>\$ 11,791,170</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 437,052	\$ -	\$ -	\$ -	\$ 437,052
Deferred rent	28,207	-	-	-	28,207
Contributions paid in advance	-	-	149,641	-	149,641
Social Impact Bond first-loss guarantee	-	-	1,320,200	-	1,320,200
<b>TOTAL LIABILITIES</b>	<b>465,259</b>	<b>-</b>	<b>1,469,841</b>	<b>-</b>	<b>1,935,100</b>
<b>NET ASSETS</b>					
Unrestricted net assets					
Controlling	5,709,705	-	-	-	5,709,705
Non-controlling	-	-	3,345,218	-	3,345,218
Total unrestricted net assets	5,709,705	-	3,345,218	-	9,054,923
Temporarily restricted net assets	801,147	-	-	-	801,147
<b>TOTAL NET ASSETS</b>	<b>6,510,852</b>	<b>-</b>	<b>3,345,218</b>	<b>-</b>	<b>9,856,070</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,976,111</b>	<b>\$ -</b>	<b>\$ 4,815,059</b>	<b>\$ -</b>	<b>\$ 11,791,170</b>

See independent auditor's report.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
CONSOLIDATING STATEMENT OF ACTIVITIES - UNRESTRICTED  
FOR THE YEAR ENDED DECEMBER 31, 2015

	SFI	Affiliate		Eliminations	Consolidated Total
		NYS CEO Manager	NYS CEO LLC		
<b>SUPPORT AND REVENUES</b>					
Foundation grants	\$ 1,572,898	\$ -	\$ -	\$ -	\$ 1,572,898
Individual donations	548,050	-	-	-	548,050
Social investment and advisory fees	2,020,596	-	-	-	2,020,596
Management fees	50,000	-	-	(50,000)	-
In-kind contributions	651,049	-	-	-	651,049
Other income	8,137	-	-	-	8,137
Net assets released from restrictions	579,487	-	-	-	579,487
<b>TOTAL SUPPORT AND REVENUES</b>	<u>5,430,217</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>5,380,217</u>
<b>EXPENSES</b>					
Program:					
Social investment and advisory services	3,782,360	-	4,020,766	(50,000)	7,753,126
Market education	551,786	-	-	-	551,786
Support:					
General and administrative	710,969	-	989	-	711,958
Fundraising	58,487	-	-	-	58,487
<b>TOTAL EXPENSES</b>	<u>5,103,602</u>	<u>-</u>	<u>4,021,755</u>	<u>(50,000)</u>	<u>9,075,357</u>
<b>NET INCOME (LOSS)</b>	<u>\$ 326,615</u>	<u>\$ -</u>	<u>\$ (4,021,755)</u>	<u>\$ -</u>	<u>\$ (3,695,140)</u>

See independent auditor's report.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
CONSOLIDATING STATEMENT OF ACTIVITIES - UNRESTRICTED  
FOR THE YEAR ENDED DECEMBER 31, 2014

	SFI	Affiliate		Eliminations	Consolidated Total
		NYS CEO Manager	NYS CEO LLC		
<b>SUPPORT AND REVENUES</b>					
Foundation grants	\$ 4,145,081	\$ -	\$ -	\$ -	\$ 4,145,081
Individual donations	426,050	-	-	-	426,050
Social investment and advisory fees	231,900	-	-	-	231,900
Management fees	50,000	-	-	(50,000)	-
In-kind contributions	409,371	-	-	-	409,371
Other income	18,916	-	-	-	18,916
Net assets released from restrictions	1,772,597	-	-	-	1,772,597
<b>TOTAL SUPPORT AND REVENUES</b>	<u>7,053,915</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>7,003,915</u>
<b>EXPENSES</b>					
Program:					
Social investment and advisory services	2,879,507	-	3,153,984	(50,000)	5,983,491
Market education	475,650	-	-	-	475,650
Support:					
General and administrative	502,419	-	798	-	503,217
Fundraising	81,673	-	-	-	81,673
<b>TOTAL EXPENSES</b>	<u>3,939,249</u>	<u>-</u>	<u>3,154,782</u>	<u>(50,000)</u>	<u>7,044,031</u>
<b>NET INCOME (LOSS)</b>	<u>\$ 3,114,666</u>	<u>\$ -</u>	<u>\$ (3,154,782)</u>	<u>\$ -</u>	<u>\$ (40,116)</u>

See independent auditor's report.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
CONSOLIDATING STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	SFI			NYS CEO LLC	Consolidated Total Net Assets
	Unrestricted	Temporarily Restricted	Total	Unrestricted	
<b>BALANCE AT JANUARY 1, 2014</b>	\$ 2,595,039	\$ 508,782	\$ 3,103,821	\$ 6,500,000	\$ 9,603,821
Change in net assets	3,114,666	292,365	3,407,031	(3,154,782)	252,249
<b>BALANCE AT DECEMBER 31, 2014</b>	5,709,705	801,147	6,510,852	3,345,218	9,856,070
Capital contributions from investor members	-	-	-	6,668,000	6,668,000
Change in net assets	326,615	(579,487)	(252,872)	(4,021,755)	(4,274,627)
<b>BALANCE AT DECEMBER 31, 2015</b>	<b>\$ 6,036,320</b>	<b>\$ 221,660</b>	<b>\$ 6,257,980</b>	<b>\$ 5,991,463</b>	<b>\$ 12,249,443</b>

See independent auditor's report.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	SFI	Affiliates			Eliminations	Consolidated Total
		NYS CEO Manager	NYS CEO LLC	DC Wyman Manager		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Change in net assets	\$ (252,872)	\$ -	\$ (4,021,755)	\$ -	\$ -	\$ (4,274,627)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:						
Depreciation	10,415	-	-	-	-	10,415
Loss on disposal of property and equipment	3,535	-	-	-	-	3,535
Deferred rent	(28,207)	-	-	-	-	(28,207)
Changes in operating assets and liabilities:						
Pledges receivable	1,312,077	-	-	-	-	1,312,077
Prepaid expenses	19,590	-	-	-	-	19,590
Security deposit	(72,101)	-	-	-	-	(72,101)
Accounts receivable	(428,230)	-	-	-	-	(428,230)
Due from affiliate	(100,283)	-	-	-	100,283	-
Accounts payable and accrued expenses	285,150	-	-	-	-	285,150
Due to SFI	-	-	-	100,283	(100,283)	-
Deferred revenue	28,125	-	-	-	-	28,125
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>777,199</b>	<b>-</b>	<b>(4,021,755)</b>	<b>100,283</b>	<b>-</b>	<b>(3,144,273)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of property and equipment	(24,631)	-	-	-	-	(24,631)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Capital contributions from investor members	-	-	6,518,359	-	-	6,518,359
<b>NET INCREASE IN CASH</b>	<b>752,568</b>	<b>-</b>	<b>2,496,604</b>	<b>100,283</b>	<b>-</b>	<b>3,349,455</b>
<b>CASH - BEGINNING OF YEAR</b>	<b>5,531,225</b>	<b>-</b>	<b>3,494,859</b>	<b>-</b>	<b>-</b>	<b>9,026,084</b>
<b>CASH - END OF YEAR</b>	<b>\$ 6,283,793</b>	<b>\$ -</b>	<b>\$ 5,991,463</b>	<b>\$ 100,283</b>	<b>\$ -</b>	<b>\$ 12,375,539</b>

See independent auditor's report.

**SOCIAL FINANCE, INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	SFI	Affiliate		Eliminations	Consolidated Total
		NYS CEO Manager	NYS CEO LLC		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Change in net assets	\$ 3,407,031	\$ -	\$ (3,154,782)	\$ -	\$ 252,249
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation	7,126	-	-	-	7,126
Deferred rent	4,866	-	-	-	4,866
Changes in operating assets and liabilities:					
Pledges receivable	(717,077)	-	-	-	(717,077)
Prepaid expenses	113,578	-	-	-	113,578
Accounts receivable	18,977	-	-	-	18,977
Accounts payable and accrued expenses	232,851	-	(200,000)	-	32,851
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>3,067,352</b>	<b>-</b>	<b>(3,354,782)</b>	<b>-</b>	<b>(287,430)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property and equipment	(18,977)	-	-	-	(18,977)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>3,048,375</b>	<b>-</b>	<b>(3,354,782)</b>	<b>-</b>	<b>(306,407)</b>
CASH - BEGINNING OF YEAR	2,482,850	-	6,849,641	-	9,332,491
<b>CASH - END OF YEAR</b>	<b>\$ 5,531,225</b>	<b>\$ -</b>	<b>\$ 3,494,859</b>	<b>\$ -</b>	<b>\$ 9,026,084</b>

See independent auditor's report.