

**SOCIAL FINANCE, INC.
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

SOCIAL FINANCE, INC. AND AFFILIATE

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statement of Functional Expenses - 2014	5
Consolidated Statement of Functional Expenses - 2013	6
Consolidated Statements of Changes in Net Assets	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 -14
SUPPLEMENTARY INFORMATION	
Consolidating Statement of Financial Position - 2014	15
Consolidating Statement of Financial Position - 2013	16
Consolidating Statement of Activities – Unrestricted - 2014	17
Consolidating Statement of Activities – Unrestricted - 2013	18
Consolidating Statements of Changes in Net Assets	19



INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Social Finance, Inc. (a not-for-profit organization) and Affiliate (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, 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 Affiliate as of December 31, 2014 and 2013, 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
April 27, 2015

SOCIAL FINANCE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

ASSETS	2014	2013
Cash	\$ 9,026,084	\$ 9,332,491
Restricted cash (Social Impact Bond first-loss guarantee)	1,320,200	1,320,200
Pledges receivable	1,312,077	595,000
Prepaid expenses	52,913	166,491
Security deposit	55,000	55,000
Accounts receivable	1,023	20,000
Property and equipment, net	23,873	12,022
	\$ 11,791,170	\$ 11,501,204
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 437,052	\$ 404,201
Deferred rent	28,207	23,341
Contributions paid in advance	149,641	149,641
Social Impact Bond first-loss guarantee	1,320,200	1,320,200
TOTAL LIABILITIES	1,935,100	1,897,383
NET ASSETS		
Unrestricted net assets		
Controlling	5,709,705	2,595,039
Non-controlling	3,345,218	6,500,000
Total unrestricted net assets	9,054,923	9,095,039
Temporarily restricted net assets	801,147	508,782
TOTAL NET ASSETS	9,856,070	9,603,821
TOTAL LIABILITIES AND NET ASSETS	\$ 11,791,170	\$ 11,501,204

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

SOCIAL FINANCE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUES		
Foundation grants	\$ 4,145,081	\$ 475,000
Individual donations	426,050	568,777
Advisory fees	231,900	30,000
In-kind contributions	409,371	1,146,220
Other income	18,916	6,440
Net assets released from restrictions	<u>1,772,597</u>	<u>2,214,075</u>
TOTAL SUPPORT AND REVENUES	<u>7,003,915</u>	<u>4,440,512</u>
EXPENSES		
Program:		
Social Impact Bond ("SIB") development	5,983,491	2,294,298
Market education	475,650	341,067
Support:		
General and administrative	503,217	617,070
Fundraising	<u>81,673</u>	<u>61,169</u>
TOTAL EXPENSES	<u>7,044,031</u>	<u>3,313,604</u>
CHANGE IN NET ASSETS - UNRESTRICTED	<u>(40,116)</u>	<u>1,126,908</u>
TEMPORARILY RESTRICTED NET ASSETS		
SUPPORT AND REVENUES		
Foundation grants	2,064,962	1,092,603
Individual donations	-	100,000
Net assets released from restrictions	<u>(1,772,597)</u>	<u>(2,214,075)</u>
CHANGE IN NET ASSETS - TEMPORARILY RESTRICTED	<u>292,365</u>	<u>(1,021,472)</u>
TOTAL CHANGE IN NET ASSETS		
Consolidated	252,249	105,436
Less: Loss attributable to non-controlling interest	<u>(3,154,782)</u>	<u>(200,000)</u>
CHANGE IN NET ASSETS ATTRIBUTABLE TO SOCIAL FINANCE, INC.	<u>\$ 3,407,031</u>	<u>\$ 305,436</u>

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

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

	<u>Program Services</u>		<u>Supporting Services</u>		2014 Total
	<u>SIB Development</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 - LLC	-	-	798	-	798
Program fees - LLC	3,103,984	-	-	-	3,103,984
TOTAL EXPENSES	\$ 5,983,491	\$ 475,650	\$ 503,217	\$ 81,673	\$ 7,044,031

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

SOCIAL FINANCE, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Program Services</u>		<u>Supporting Services</u>		2013 Total
	<u>SIB Development</u>	<u>Market Education</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
FUNCTIONAL EXPENSES					
Salaries	\$ 556,818	\$ 179,013	\$ 236,387	\$ 42,631	\$ 1,014,849
Payroll taxes and employee benefits	103,896	33,169	43,139	6,325	186,529
Professional services	68,818	31,500	42,154	-	142,472
Occupancy	41,918	16,106	20,229	3,476	81,729
Travel and entertainment	47,475	10,313	8,167	4,930	70,885
Technology	23,795	15,753	13,682	1,908	55,138
Office	22,132	5,135	20,913	1,209	49,389
Marketing	2,091	5,030	5,044	254	12,419
Grants expense	343,826	-	-	-	343,826
In-kind	880,572	44,097	221,341	210	1,146,220
Depreciation	2,957	951	1,255	226	5,389
Other	-	-	4,759	-	4,759
Legal - LLC	200,000	-	-	-	200,000
TOTAL EXPENSES	\$ 2,294,298	\$ 341,067	\$ 617,070	\$ 61,169	\$ 3,313,604

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

SOCIAL FINANCE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Unrestricted Net Assets			Temporarily Restricted Net Assets	Total Net Assets
	Controlling	Non- Controlling	Total		
BALANCE AT JANUARY 1, 2013	\$ 1,268,131	\$ -	\$ 1,268,131	\$ 1,530,254	\$ 2,798,385
Capital contributions from investor members	-	6,700,000	6,700,000	-	6,700,000
Change in net assets	1,326,908	(200,000)	1,126,908	(1,021,472)	105,436
BALANCE AT DECEMBER 31, 2013	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
BALANCE AT DECEMBER 31, 2014	\$ 5,709,705	\$ 3,345,218	\$ 9,054,923	\$ 801,147	\$ 9,856,070

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

SOCIAL FINANCE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 252,249	\$ 105,436
Adjustments to reconcile change in net assets (used in) provided by operating activities:		
Depreciation	7,126	5,389
Deferred rent	4,866	23,341
Changes in operating assets and liabilities:		
Pledges receivable	(717,077)	630,000
Prepaid expenses	113,578	(156,962)
Accounts receivable	18,977	(20,000)
Accounts payable and accrued expenses	32,851	322,352
Social Impact Bond first-loss guarantee	-	320,200
	<u>(287,430)</u>	<u>1,229,756</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(18,977)	(10,782)
Conditional contribution deposited in restricted cash (Social Impact Bond first-loss guarantee)	-	(320,200)
	<u>(18,977)</u>	<u>(330,982)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions paid in advance	-	149,641
Capital contributions from investor members	-	6,700,000
	<u>-</u>	<u>6,849,641</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET (DECREASE) INCREASE IN CASH	(306,407)	7,748,415
CASH - BEGINNING OF YEAR	<u>9,332,491</u>	<u>1,584,076</u>
CASH - END OF YEAR	<u>\$ 9,026,084</u>	<u>\$ 9,332,491</u>

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

SOCIAL FINANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

1. NATURE OF THE ORGANIZATION

Social Finance, Inc. ("SFI") was established in 2011 as a nonprofit organization under the laws of the Commonwealth of Massachusetts and received 501(c)(3) status in 2012. SFI works to mobilize investment capital to drive social progress by structuring and managing impact investments that have the potential to address some of society's most intractable social challenges. Core to its work is the development of Social Impact Bonds ("SIBs"), also referred to as Pay For Success ("PFS") financing, which are innovative public-private-partnerships designed to fund and facilitate the expansion of effective, outcomes-based social service programs.

SFI's programs consist of the following:

Social Impact Bond ("SIB") Development – Within PFS financing, private and philanthropic investors provide capital to scale up outcomes-based social service programs, and the government returns principal plus returns to these investors if and only if predetermined social outcomes are achieved. If the program does not achieve those outcomes, the government is not obligated to repay investor's initial investment. Accordingly, SIBs achieve three interlinked objectives: transferring risk away from government, lessening the initial financing burden of the public sector, and directing government resources to what works. Efforts to build the field for PFS Financing can include the following: feasibility analysis, technical assistance and capacity building, evaluation design, financial structuring, investor relations, and performance management.

Market Education – SFI devotes substantial effort to building knowledge around PFS, SIBs and other impact investing tools that advance an outcomes-focused social sector. Through publications, speaking engagements, media coverage, frequent website updates, and social media, SFI aims to support the development of enduring solutions for the social sector.

SFI controls an affiliate, Social Finance NY State Workforce Re-Entry 2013 Manager, Inc., a Delaware nonprofit non-stock corporation ("Manager, Inc."), through common management. Manager, Inc. is the managing member of Social Finance NY State Workforce Re-entry 2013 LLC, a for-profit limited liability company (the "LLC"). Manager, Inc. 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 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 Manager, Inc. will receive the maximum outcome payments payable under the contract (the "PFS Agreement") with New York State Department of Labor (the "NYS DOL") for the Pay for Success Project (the "PFS Project"). The LLC's activities are limited to deploying investor funds for PFS Project costs and receiving outcome payments for distribution to members of the LLC, in each case pursuant to the terms and conditions of the PFS Agreement.

The 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 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 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 LLC will dissolve after all payments have been made in full to Manager, Inc. 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 Manager, Inc. 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 year ending December 31, 2014, the LLC disbursed total payments of \$3,103,984 in connection with the PFS project. No payments were disbursed in 2013.

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 2000 high-risk, formerly incarcerated individuals.

SOCIAL FINANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

1. NATURE OF THE ORGANIZATION (CONTINUED)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

Pledges Receivable

Pledges receivable represent unconditional promises to give by donors. At December 31, 2014 and 2013, the Organization had pledges receivable of \$1,312,077 and \$595,000, respectively. All pledges are expected to be received within one year. 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. As of December 31, 2014 and 2013, the Organization has determined that no allowance for doubtful accounts is necessary.

Accounts Receivable

At December 31, 2014 and 2013, the Organization had accounts receivable of \$1,023 and \$20,000, respectively. The Organization uses the allowance method to determine uncollectible accounts receivable. At December 31, 2014 and 2013, the Organization has determined that no allowance for doubtful accounts is necessary.

SOCIAL FINANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Social Finance, Inc. and Social Finance NY State Workforce Re-Entry 2013 Manager, Inc.

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. Manager, Inc. was established as a nonprofit, non-stock corporation.

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.

SOCIAL FINANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax (Continued)

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.

Subsequent Events

The Organization has evaluated events through April 27, 2015, which is the date the consolidated financial statements were available to be issued.

3. NON-CONTROLLING INTEREST

The Organization's non-controlling interest is comprised of the 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 LLC or act on behalf of the 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 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 since there has been no Phase II capital call. The LLC is theoretically obligated to return the entire amount should the Class X member request it. The Organization does not anticipate any such request.

Each Member shall make 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 has agreed to make capital contributions up to a certain capital commitment to the LLC. The total funded commitment as of December 31, 2014 is \$6,700,000, which represents Phase I contributions of the PFS Project. The total unfunded commitment is \$6,668,000, which represents Phase II future contributions of the PFS Project. All contributions are to be disbursed solely to the PFS Project and related costs.

4. PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Computers and software	\$ 22,407	\$ 10,603
Equipment	8,554	8,554
Furniture and fixtures	4,351	2,228
Leasehold improvements	5,050	-
	<u>40,362</u>	<u>21,385</u>
Less: accumulated depreciation	<u>(16,489)</u>	<u>(9,363)</u>
	<u>\$ 23,873</u>	<u>\$ 12,022</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$7,126 and \$5,389, respectively.

SOCIAL FINANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

5. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Purpose restricted	\$ 801,147	\$ 408,782
Time restricted	-	100,000
	<u>\$ 801,147</u>	<u>\$ 508,782</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, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Purpose restricted	\$ 1,672,597	\$ 922,409
Time restricted	100,000	1,291,666
	<u>\$ 1,772,597</u>	<u>\$ 2,214,075</u>

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

During 2012, the Organization was the recipient of a \$1,250,000 grant, of which \$1,000,000 was to be used to fund the Social Impact Bond first-loss guarantee. In 2013, the Organization received another grant of \$500,000, of which \$320,200 was also to fund the Social Impact Bond first-loss guarantee. The total of \$1,320,200 was segregated and transferred from SFI to an escrow account in the name of the LLC. The Social Impact Bond first-loss guarantee serves as a guarantee facility for certain members of the 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.

7. IN-KIND CONTRIBUTIONS

During the year ended December 31, 2014, the Organization recognized total in-kind contributions of \$409,371, which consisted solely of professional services. During the year ended December 31, 2013, the Organization recognized total in-kind contributions of \$1,146,220, consisting of professional services of \$1,137,887 and rent of \$8,333. These amounts are reflected as both support and expenses in the accompanying consolidated financial statements.

8. RETIREMENT PLAN

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, 2014 and 2013, the total retirement expense consisting of employer contributions totaled \$24,493 and \$14,420, respectively.

SOCIAL FINANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

9. COMMITMENTS AND CONTINGENCIES

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 is responsible for base rent and a percentage of operating expenses and real estate taxes commencing 90 days after the lease effective date.

Future minimum lease payments are as follows:

Year Ending December 31,	
2015	\$ 124,449
2016	128,360
2017	132,271
2018	136,182
2019	45,829
	<hr/>
	\$ 567,091

Rent expense for the years ended December 31, 2014 and 2013 was \$105,265 and \$77,145, respectively.

10. CONCENTRATIONS

- 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, 2014, two donors contributed \$3,138,950 to the Organization which amounted to approximately 49% of the Organization's total support and revenue. For the year ended December 31, 2013, two donors contributed \$1,037,803 to the Organization which amounted to approximately 30% of the Organization's total support and revenue.
- C. Two grantors accounted for approximately 89% of pledges receivable at December 31, 2014. Two grantors accounted for approximately 77% of pledges receivable at December 31, 2013.

SUPPLEMENTARY INFORMATION

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

ASSETS	SFI	Affiliate		Eliminations	2014
		Manager, Inc.	LLC		
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
Prepaid expenses	52,913	-	-	-	52,913
Security deposit	55,000	-	-	-	55,000
Accounts receivable	1,023	-	-	-	1,023
Property and equipment, net	23,873	-	-	-	23,873
	\$ 6,976,111	\$ -	\$ 4,815,059	\$ -	\$ 11,791,170
LIABILITIES AND NET ASSETS					
LIABILITIES					
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
TOTAL LIABILITIES	465,259	-	1,469,841	-	1,935,100
NET ASSETS					
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
TOTAL NET ASSETS	6,510,852	-	3,345,218	-	9,856,070
TOTAL LIABILITIES AND NET ASSETS	\$ 6,976,111	\$ -	\$ 4,815,059	\$ -	\$ 11,791,170

See independent auditor's report.

SOCIAL FINANCE, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

ASSETS	SFI	Affiliate		Eliminations	2013
		Manager, Inc.	LLC		
Cash	\$ 2,482,850	\$ -	\$ 6,849,641	\$ -	\$ 9,332,491
Restricted cash					
(Social Impact Bond first-loss guarantee)	-	-	1,320,200	-	1,320,200
Pledges receivable	595,000	-	-	-	595,000
Prepaid expenses	166,491	-	-	-	166,491
Security deposit	55,000	-	-	-	55,000
Accounts receivable	20,000	-	-	-	20,000
Property and equipment, net	12,022	-	-	-	12,022
	\$ 3,331,363	\$ -	\$ 8,169,841	\$ -	\$ 11,501,204
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable					
and accrued expenses	\$ 204,201	\$ -	\$ 200,000	\$ -	\$ 404,201
Deferred rent	23,341	-	-	-	23,341
Contributions paid in advance	-	-	149,641	-	149,641
Social Impact Bond					
first-loss guarantee	-	-	1,320,200	-	1,320,200
TOTAL LIABILITIES	227,542	-	1,669,841	-	1,897,383
NET ASSETS					
Unrestricted net assets					
Controlling	2,595,039	-	-	-	2,595,039
Non-controlling	-	-	6,500,000	-	6,500,000
Total unrestricted net assets	2,595,039	-	6,500,000	-	9,095,039
Temporarily restricted net assets	508,782	-	-	-	508,782
TOTAL NET ASSETS	3,103,821	-	6,500,000	-	9,603,821
TOTAL LIABILITIES AND NET ASSETS	\$ 3,331,363	\$ -	\$ 8,169,841	\$ -	\$ 11,501,204

See independent auditor's report.

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

	SFI	Affiliate		Eliminations	2014
		Manager, Inc.	LLC		
SUPPORT AND REVENUES					
Foundation grants	\$ 4,145,081	\$ -	\$ -	\$ -	\$ 4,145,081
Individual donations	426,050	-	-	-	426,050
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
TOTAL SUPPORT AND REVENUES	7,053,915	-	-	(50,000)	7,003,915
EXPENSES					
Program:					
Social Impact Bond ("SIB") development	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
TOTAL EXPENSES	3,939,249	-	3,154,782	(50,000)	7,044,031
NET INCOME (LOSS)	\$ 3,114,666	\$ -	\$ (3,154,782)	\$ -	\$ (40,116)

See independent auditor's report.

SOCIAL FINANCE, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES - UNRESTRICTED
FOR THE YEAR ENDED DECEMBER 31, 2013

	SFI	Affiliate		Eliminations	2013
		Manager, Inc.	LLC		
SUPPORT AND REVENUES					
Foundation grants	\$ 475,000	\$ -	\$ -	\$ -	\$ 475,000
Individual donations	568,777	-	-	-	568,777
Advisory fees	30,000	-	-	-	30,000
In-kind contributions	1,146,220	-	-	-	1,146,220
Other income	6,440	-	-	-	6,440
Net assets released from restrictions	2,214,075	-	-	-	2,214,075
TOTAL SUPPORT AND REVENUES	4,440,512	-	-	-	4,440,512
EXPENSES					
Program:					
Social Impact Bond ("SIB") development	2,094,298	-	200,000	-	2,294,298
Market education	341,067	-	-	-	341,067
Support:					
General and administrative	617,070	-	-	-	617,070
Fundraising	61,169	-	-	-	61,169
TOTAL EXPENSES	3,113,604	-	200,000	-	3,313,604
NET INCOME (LOSS)	\$ 1,326,908	\$ -	\$ (200,000)	\$ -	\$ 1,126,908

See independent auditor's report.

SOCIAL FINANCE, INC. AND AFFILIATE
CONSOLIDATING STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	SFI			LLC	Total Net Assets
	Unrestricted	Temporarily Restricted	Total	Unrestricted	
BALANCE AT JANUARY 1, 2013	\$ 1,268,131	\$ 1,530,254	\$ 2,798,385	\$ -	\$ 2,798,385
Capital contributions from investor members	-	-	-	6,700,000	6,700,000
Change in net assets	1,326,908	(1,021,472)	305,436	(200,000)	105,436
BALANCE AT DECEMBER 31, 2013	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
BALANCE AT DECEMBER 31, 2014	\$ 5,709,705	\$ 801,147	\$ 6,510,852	\$ 3,345,218	\$ 9,856,070

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