

SFMADE, INC. AND SUBSIDIARIES

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

# **SFMade, Inc. and Subsidiaries**

## **Independent Auditors' Report and Consolidated Financial Statements**

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<b>Independent Auditors' Report</b>	1 - 2
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### **Financial Statements**

Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 19

### **Supplemental Information**

Consolidating Statement of Financial Position	20
Consolidating Statement of Activities and Changes in Net Assets	21



A Century Strong

## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
SFMADE, INC. AND SUBSIDIARIES  
San Francisco, California

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

We have audited the accompanying consolidated financial statements of **SFMADE, INC. AND SUBSIDIARIES** (collectively referred to as "**SFMade**"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 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 SFMade'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 SFMade'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 consolidated financial position of SFMade and its subsidiaries as of December 31, 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.

### **Effect of Adopting New Accounting Standard**

As described in Note 2(n), SFMade adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14: *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit (Topic 958)*. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

### **Other Matter - Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information included on pages 19 and 20 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 consolidating information has been subjected to the auditing procedures applied in the audit 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.

*Hood & Strong LLP*

San Francisco, California  
May 22, 2019

# SFMade, Inc. and Subsidiaries

## Consolidated Statement of Financial Position

December 31, 2018

### Assets

#### Current Assets:

Cash and cash equivalents	\$ 3,385,107
Accounts, contributions, and other receivables	300,885
Prepaid expenses and other assets	40,654

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Total current assets	3,726,646
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<b>Loans receivable, net</b>	16,706,080
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<b>Property and Equipment, net</b>	36,984,024
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Total assets	\$ 57,416,750
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### Liabilities and Net Assets

#### Current Liabilities:

Accounts payable and accrued expenses	\$ 250,601
Construction costs payable	1,235,374
Line of credit	150,000

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Total current liabilities	1,635,975
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#### Long-Term Liabilities:

Loans payable, less unamortized deferred loan costs	32,271,438
Tenant security deposits	341,062

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Total liabilities	34,248,475
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#### Net Assets:

Without donor restrictions	23,048,052
With donor restrictions	120,223

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Total net assets	23,168,275
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Total liabilities and net assets	\$ 57,416,750
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See accompanying notes to the consolidated financial statements.

## SFMade, Inc. and Subsidiaries

### Consolidated Statement of Activities and Changes in Net Assets

*Year Ended December 31, 2018*

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue:</b>			
Grants and contributions	\$ 24,369,330	\$ 22,500	\$ 24,391,830
Government grants	606,279		606,279
Program revenue:			
Manufacturing sector services	259,393		259,393
Affordable industrial space development	24,688		24,688
Rental income	296,719		296,719
Interest income	426,705		426,705
	25,983,114	22,500	26,005,614
Net assets released from restrictions	395,555	(395,555)	-
<b>Total support and revenue</b>	<b>26,378,669</b>	<b>(373,055)</b>	<b>26,005,614</b>
<b>Expenses:</b>			
Program services:			
Advising and education	739,432		739,432
Workforce and youth	189,005		189,005
Policy and practice	489,602		489,602
Affordable industrial space	1,374,220		1,374,220
<b>Total program services</b>	<b>2,792,259</b>		<b>2,792,259</b>
General and administrative	354,959		354,959
Fundraising	170,408		170,408
<b>Total expenses</b>	<b>3,317,626</b>	<b>-</b>	<b>3,317,626</b>
<b>Changes in Net Assets</b>	<b>23,061,043</b>	<b>(373,055)</b>	<b>22,687,988</b>
<b>Net Assets, Beginning of Year</b>	<b>(12,991)</b>	<b>493,278</b>	<b>480,287</b>
<b>Net Assets, End of Year</b>	<b>\$ 23,048,052</b>	<b>\$ 120,223</b>	<b>\$ 23,168,275</b>

See accompanying notes to the consolidated financial statements.

## SFMade, Inc. and Subsidiaries

### Consolidated Statement of Functional Expenses

*Year Ended December 31, 2018*

	2018			
	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 966,051	\$ 131,782	\$ 85,771	\$ 1,183,604
Payroll taxes and benefits	201,102	25,227	23,589	249,918
Total salaries, payroll taxes and benefits	1,167,153	157,009	109,360	1,433,522
Interest	558,634	3,724	521	562,879
Consultants and contractors	231,847	21,097	11,375	264,319
Property management expenses	226,026	733	535	227,294
Depreciation and amortization	162,078	17,238	1,066	180,382
Accounting & auditing		96,459		96,459
Property tax	93,334	736	259	94,329
Marketing	68,168	9,320	11,243	88,731
Events	73,946	192	8,234	82,372
Legal	46,460	1,162	1,393	49,015
Travel	33,431	11,351	2,261	47,043
Occupancy	33,991	9,183	3,125	46,299
Insurance	27,404	9,340	557	37,301
Other expenses	8,545	7,064	15,978	31,587
Grants	30,000			30,000
Office expenses	15,789	8,000	1,660	25,449
Information technology	12,960	1,711	2,841	17,512
Conferences, conventions, and meetings	2,493	640		3,133
Total expenses	\$ 2,792,259	\$ 354,959	\$ 170,408	\$ 3,317,626

See accompanying notes to the consolidated financial statements.

# SFMade, Inc. and Subsidiaries

## Consolidated Statement of Cash Flows

*Year Ended December 31, 2018*

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**Cash Flows from Operating Activities:**

Change in net assets	\$ 22,687,988
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
In-kind land donation	(13,471,100)
Depreciation	165,194
Amortization of loan issuance costs	15,188
Changes in assets and liabilities:	
Receivables	283,715
Prepaid expenses and other assets	11,031
Tenant security deposits	341,062
Accounts payable and accrued expenses	4,432

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Net cash provided by operating activities	10,037,510
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**Cash Flows from Investing Activities:**

Purchase of property, plant and equipment	(22,380,780)
New Market Tax Credit "Fund" investment	(16,706,080)

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Net cash used by investing activities	(39,086,860)
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**Cash Flows from Financing Activities:**

Borrowings on line of credit	150,000
Payments on line of credit	(50,000)
Proceeds from loans payable	32,398,000
Loan issuance costs	(116,750)

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Net cash provided by financing activities	32,381,250
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<b>Net Increase in Cash and Cash Equivalents</b>	<b>3,331,900</b>
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<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>53,207</b>
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<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 3,385,107</b>
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**Supplemental Disclosure of Cash Paid:**

Interest	\$ 355,297
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**Supplemental Schedule of Noncash Operating, Investing, and Financing Activities:**

Acquisition of property, plant and equipment included in payables	\$ 1,288,222
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See accompanying notes to the consolidated financial statements.



# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 1 - Nature of the Organization:

SFMade, Inc. was established in 2010 as an independent nonprofit organization to build and support a vibrant manufacturing sector in San Francisco that sustains companies producing locally-made products, encourages entrepreneurship and innovation, and creates employment opportunities for a diverse local workforce. SFMade, Inc. engages directly with entrepreneurs and growing small companies, all of whom are headquartered in and manufacture within San Francisco, offering industry-specific education, networking opportunities, and connecting these companies to powerful local resources through collaboration with various funding and strategic partners that are some of San Francisco's most established and effective organizations.

SFMade, Inc. collaborates with various funding and strategic partners to establish and deliver innovative programs for manufacturers, offers education to the general public, and provides new economic policy insight to the City, the Region, the State, and beyond. SFMade, Inc.'s main sources of revenue are from government grants and corporate and private contributions.

In 2017, building on SFMade, Inc.'s regional policy collaboration efforts, the organization engaged with the city of San Jose, existing funding and strategic partners, and new collaborators to create the Manufacture: San Jose Program. This program has the goal to drive resources, knowledge, and visibility to the city's manufacturers by leveraging SFMade, Inc.'s existing programs and expertise.

PlaceMade, Inc. (PlaceMade) was founded in 2013 with fiscal sponsorship by SFMade, Inc. through July 2015 at which time it obtained its 501(c)(3) exemption determination as a supporting organization of SFMade, Inc. PlaceMade accomplishes its mission through strategic collaborations with the public and private sectors to design, build, renovate, and rent modern, affordable industrial space for manufacturers and other related industrial users in the City of San Francisco. SFMade, Inc.'s Board of Directors appoints the PlaceMade's Board of Directors and SFMade, Inc. has an economic interest in PlaceMade therefore PlaceMade has been consolidated with SFMade, Inc. Certain staff and directors of SFMade, Inc. also serve as directors and board members of PlaceMade.

150 Hooper, Inc. (150 Hooper) was founded in 2017 to acquire and complete construction on a project then in-construction at 150 Hooper Street in San Francisco. Beginning September 2018, 150 Hooper rents the industrial space on an affordable basis to manufacturers and other related industrial users. 150 Hooper was formed as a separate California public benefit corporation. SFMade, Inc.'s Board of Directors may appoint two of the five members of the 150 Hooper Board of Directors, SFMade, Inc. controls the operations through common management and SFMade, Inc. has an economic interest in 150 Hooper. Certain staff and directors of SFMade, Inc. also serve as directors and board members of 150 Hooper.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 2 - Summary of Significant Accounting Policies:

a. Method of Accounting

The consolidated financial statements have been prepared on the accrual basis. The accounts are maintained in accordance with accounting principles generally accepted in the United States of America relevant to nonprofit organizations.

b. Principles of Consolidation

The consolidated financial statements include the accounts of SFMade, Inc., PlaceMade, and 150 Hooper, collectively SFMade. All significant intercompany accounts have been eliminated in consolidation.

c. Description of Net Assets

*Without Donor Restrictions*

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of SFMade's management and the board of directors.

*With Donor Restrictions*

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of SFMade or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, or is met by actions of SFMade net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities and changes in net assets. If a restriction is fulfilled in the same fiscal year in which the contribution is received, SFMade classifies the support as net assets without donor restrictions.

SFMade has no net assets with donor restrictions of a perpetual nature at December 31, 2018.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### d. Contributions, Grants and Receivables

Contributions and grants are recognized at their fair value when the donor makes an unconditional promise to give to SFMade. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. As restrictions are fulfilled, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities and changes in net assets. If a restriction is fulfilled in the same fiscal year in which the contribution is received, SFMade classifies the support as net assets without donor restrictions.

Revenue from government grants and contracts are recognized as without donor restrictions revenue when earned, that is, generally as the related costs are incurred under the grant or contract agreements. Amounts expended in excess of reimbursements are reported as receivables until reimbursed.

Conditional promises to give are not recorded as contribution revenue until the conditions are substantially met. There were no conditional promises to give at December 31, 2018.

SFMade reviews individual receivable balances at year end to evaluate the appropriate allowance based on subsequent collection and historical collection experience with the donors for uncollectible receivables and contributions. Management has deemed all receivables to be fully collectible and therefore no allowance for doubtful accounts has been provided for. At December 31, 2018, contributions, grants and other receivables are expected to be collected within the subsequent fiscal year.

### e. Program Revenue

Manufacturing sector services and affordable industrial space development program revenue consists of fees for educational workshops on manufacturing industry-specific topics, SFMade member selling events, and consulting services performed, and is reported in the year in which such programs and services are conducted. Rental income program revenue is recognized straight line over the term of the lease, based upon signed lease agreements which stipulate the amounts due monthly.

### f. Cash Equivalents

Cash equivalents include funds held in interest-bearing checking accounts. During the year ended December 31, 2018, SFMade regularly held cash deposits in excess of federally insured limits.

### g. Prepaid Expenses and Other Assets

Prepaid expenses and other assets include deposits and other prepaid operating expenses.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### h. Property and Equipment

Property and equipment are recorded at cost and are depreciated on the straight-line basis over their estimated useful lives, which range from three to forty years. Donated items are capitalized at the estimated fair value at the date of contribution and are depreciated over their estimated useful lives. Major additions and betterments costing more than \$500 are capitalized. Maintenance and repairs are charged to expense as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts and gain or loss, if any, is reflected in the consolidated statement of activities and change in net assets in the year of retirement or disposal. The carrying value of all long-lived assets is evaluated periodically to determine if an adjustment to the useful life or to the undepreciated balance is warranted.

### i. Tenant security deposits

Tenant security deposits consist of cash received from tenants as refundable security deposits in accordance with signed lease agreements.

### j. Contributed Services and Goods

Contributions of services are recognized when received if such services (a) enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

A number of volunteers have donated significant amounts of time in SFMade's program services. The value of donated volunteer services has not been recognized in the accompanying consolidated financial statements because such volunteer services do not meet the above-mentioned criteria.

In-kind contributions consist of contributed property. For the year ended December 31, 2018, an in-kind land contribution of \$13,471,100 was received related to the 150 Hooper Street transaction. See Note 4.

### k. Functional Expense Allocations

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses such as salaries, benefits, occupancy, legal services, office expenses, insurance, depreciation, and other are allocated among program, general and administrative, and fundraising based on the time and effort method of allocation.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### l. Income Taxes

SFMade, Inc., PlaceMade, and 150 Hooper are exempt from income tax on related income under the Internal Revenue Code, Section 501(c)(3) and the California tax code. Accordingly, no provision for income taxes has been reflected in these consolidated financial statements. SFMade follows the guidance on accounting for uncertainty in income taxes issued by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740. As of December 31, 2018, management evaluated SFMade's tax positions and concluded that SFMade, Inc., PlaceMade, and 150 Hooper had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

### m. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### n. Recent Accounting Pronouncements

#### *Adopted*

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14: *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit (Topic 958)*. The guidance in this ASU changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of prior year functional expense and liquidity and availability of resource information as permitted by the ASU.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### *Pronouncements Effective in the Future*

In February 2016, FASB issued ASU 2016-02: Leases (Topic 842). The guidance in this ASU will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for SFMade, since it is not deemed a public business entity, for its fiscal year beginning after December 15, 2019, and for interim periods beginning after December 15, 2020 with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with the option to elect certain transition reliefs. SFMade is currently evaluating the impact of this pronouncement.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The guidance in this ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It provides a framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The amendments in the update does not apply to transfers of assets from governments to businesses. The amendments in the update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Early application of the amendments in the update is permitted and applied prospectively. SFMade is currently evaluating the impact of this pronouncement.

o. Subsequent Events

SFMade evaluated subsequent events from December 31, 2018 through May 22, 2019, the date these consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 3 - Availability and Liquidity:

The following represents SFMade's financial assets at December 31, 2018:

Financial assets at year-end:	
Cash and cash equivalents	\$ 3,385,107
Accounts, contributions, and other receivables	300,885
Loans receivable, net	16,706,080
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Total financial assets	20,392,072
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Amounts not available to be used within one year:	
Net assets with donor restrictions	120,223
Less net assets with purpose restrictions to be met in one year	(120,223)
Long term loans receivables	(16,706,080)
Contractual imposed restrictions:	
Construction payable and local taxes and fees associated with the purchase of the building at 150 Hooper Street	(1,600,000)
Future expenses to be paid to the San Francisco Community Investment Fund (Note 6)	(1,000,000)
Tenant security deposits	(341,000)
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	(19,647,080)
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Financial assets available to meet general expenditures over the next twelve months	\$ 744,992

SFMade's cash flows have seasonal variations during the year attributable to corporate grant timing, reimbursement from government contracts, and the concentration of contributions received for fundraising events. As part of its liquidity plan, SFMade has a \$150,000 line of credit available to meet cash flow needs which was fully drawn upon at December 31, 2018.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 4 - Property and Equipment:

Property and equipment at December 31, 2018 was comprised of the following:

Land	\$ 13,471,100
Building and improvements	23,577,874
Furniture and equipment	73,101
Construction in progress	60,321
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Subtotal	37,182,396
Less accumulated depreciation	(198,372)
<hr/>	
Total	\$ 36,984,024

In 2018, SFMade purchased 150 Hooper Street as discussed in Note 6. The building was placed in service on September 1, 2018. Pursuant to the Agreement of Purchase and Sale and Joint Escrow Instructions and the First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions agreements, SFMade is prohibited from selling or otherwise transferring all or a controlling interest to any third party at any time prior to the fifth anniversary of the purchase date. The Agreement also includes a profit participation fee clause which would be payable if the building is sold prior to twenty years after the closing date of the purchase.

Depreciation expense totaled \$165,194 for the year ended December 31, 2018. Property and equipment are collateral for the debt agreement as described in Notes 6, 7, and 8.

SFMade capitalizes interest cost incurred on funds used to finance the purchase of the building. The capitalized interest is recorded as part of the building and is depreciated over the asset's estimated useful life. Interest cost capitalized was \$260,294 for the year ended December 31, 2018.

### Note 5 - Net Assets With Donor Restrictions:

As of December 31, 2018, net assets with donor restrictions are available for the following purposes or periods:

San Jose program	\$ 95,923
Time	24,300
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	\$ 120,223



# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows, at December 31, 2018:

Advising and education	\$	14,318
Workforce and youth		31,000
Policy and practice		44,157
San Jose		235,280
Time		70,800
		<hr/>
	\$	395,555

### Note 6 - New Market Tax Credit Structure:

In March 2018, PlaceMade received approximately \$8,300,000 in net proceeds from financing agreements related to the purchase of and capital expenditures at 150 Hooper Street in San Francisco. This financing arrangement was structured with a third party financial institution (the “NMTC Investor”) associated with Capital One, N.A., an investment fund, and two community development entities (the “CDEs”) majority owned by the investment fund. This transaction was designed to qualify under the federal New Market Tax Credit (“NMTC”) program, pursuant to Section 45D of the Internal Revenue Code of 1986, as amended. Through this transaction, PlaceMade has secured low interest financing and the potential for future debt forgiveness related to the building at 150 Hooper Street. Upon closing of the NMTC transaction, PlaceMade provided an aggregate of \$16,706,080, of which \$8,700,000 was borrowed from Northern California Community Loan Fund (NCCLF) (Note 7) and the remainder from a private contribution of \$10,000,000, to the investment fund, in the form of a loan receivable, with a term of 40 years, bearing an interest rate of 3.3679% per annum. This \$16,706,080 in proceeds plus \$8,278,920 of net capital from the NMTC Investor were contributed to and used by the CDEs to make loans in the aggregate of \$23,698,000 to another subsidiary of SFMade, 150 Hooper. These loans bear interest at a fixed rate of 2.3930% and are due March 2058. 150 Hooper used the loan proceeds to purchase the building at 150 Hooper Street and complete the construction. These capital assets will serve as collateral to the financing arrangement. This transaction also includes a put/call feature whereby, at the end of a seven-year compliance period, PlaceMade may be obligated or entitled to repurchase the NMTC Investor’s interest in the investment fund. The value attributable to the put price is nominal. Consequently, if exercised, the put could result in the forgiveness of the NMTC Investor’s interest in the investment fund, and result in a net non-operating gain of up to \$6,991,920. The call price will be valued at the net present value of the cash flows of the lease inherent in the transaction.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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The NMTC Investor is subject to 100% recapture of the New Market Tax Credits it receives for a period of seven years as provided in the Internal Revenue Code and applicable U.S. Treasury regulations. PlaceMade is required to follow various regulations and contractual provisions that apply to the New Market Tax Credit arrangement. Noncompliance with applicable requirements could result in the NMTC Investor's projected tax benefits not being realized and, therefore, require PlaceMade to indemnify the NMTC Investor for any loss or recapture of New Market Tax Credits related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. PlaceMade does not anticipate any credit recapture will be required in connection with this financing arrangement.

### Note 7 - Loans Payable:

On March 28, 2018, PlaceMade entered into a loan agreement with Northern California Community Loan Fund, Inc., for \$8,700,000, bearing interest at 5.50% per annum. PlaceMade is required to make monthly payments of interest only for twenty four-months after commencement of the loan. After twenty four-months, payments of interest and principal are due monthly based on a thirty year amortization through March 28, 2025, the maturity date, when the remaining principal balance along with all accrued but unpaid interest is due. The loan contains certain non-financial covenants, restrictions on additional borrowings without prior approval, and is secured by a first deed of trust on the 150 Hooper building. The loan proceeds were required to be used towards the investment fund loan in the aggregate principal amount of \$16,706,080. See Note 6.

Loans payable as of December 31, 2018 consist of the following:

NCCLF loan, 5.50% interest, maturity of March 28, 2025	\$ 8,700,000
CDE loans (See Note 6)	23,698,000
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	32,398,000
Less unamortized debt issuance costs	(126,562)
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Total	\$ 32,271,438

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

The future schedule of principal payments as of December 31, 2018 is summarized as follows:

Year Ending December 31,	NCCLF	CDEs	Total
2019	\$ -		\$ -
2020	85,000		85,000
2021	121,000		121,000
2022	128,000		128,000
2023	135,000		135,000
Thereafter	8,231,000	\$ 23,698,000	31,929,000
Total	\$ 8,700,000	\$ 23,698,000	\$ 32,398,000

### Note 8 - Commitments and Contingencies:

#### *Government Grants*

Government grants and contracts require the fulfillment of certain conditions as set forth in the agreements and are subject to audit and final acceptance by the government agency. SFMade does not believe the results of any audits or actions by government agencies in relation to grants recorded will have a material impact on the consolidated statement of financial position or consolidated statement of activities and changes in net assets at December 31, 2018.

#### *Line of Credit*

During 2018, SFMade, Inc.'s existing revolving line of credit agreement of \$150,000 was amended and renewed as of August 2, 2018 with an effective date of April 15, 2018 between Amalgamated Bank successor by merger to New Resource Bank. The interest rate is Prime plus 1.50%, but not less than 6.00%, expiring April 15, 2019. The interest rate at December 31, 2018 was 7.00%. There was an outstanding balance of \$150,000 at December 31, 2018. Any borrowings are collateralized by substantially all assets of SFMade, Inc. Under the terms of the line of credit agreement, SFMade, Inc. is required to maintain certain financial ratios and comply with certain other covenants. As of December 31, 2018, SFMade, Inc. was not in compliance with one of the terms of the agreement and received a waiver and extension of the agreement from Amalgamated Bank. The term of the agreement was extended until April 15, 2020.

# SFMade, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 9 - Concentration of Credit Risk:

SFMade's operations are subject to several risks and uncertainties, including, but not limited to, risks associated with the cyclical nature of real estate operations and the geographic concentration of SFMade's operations.

### Note 10 - Leasing Arrangements:

SFMade receives rental income from tenants under non-cancelable operating leases through June 30, 2031. Approximate minimum annual rentals under operating leases in affect at December 31, 2018, for the next five years and thereafter are as follows:

Year Ending December 31,	
2019	\$ 1,317,000
2020	1,340,000
2021	1,059,000
2022	645,000
2023	557,000
Thereafter	783,000
	<hr/>
	\$ 5,701,000

### Note 11 - Related Party Transactions:

At December 31, 2018, contributions receivable from members of the Board of Directors and the corporations by whom they are employed totaled approximately \$4,000. For the year ended December 31, 2018, contributions from members of the Board of Directors and the corporations by whom they are employed totaled approximately \$229,900. For the year ended December 31, 2018, SFMade made payments of approximately \$247,000 to vendors who employ members of the Board of Directors with approximately \$7,600 in accounts payable and accrued expenses as of December 31, 2018.

Certain members of the Board of Directors are affiliated with banking and professional service firms providing services to SFMade.

# **SFMade, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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### **Note 12 - Retirement Plan:**

In 2016, SFMade adopted a Savings Incentive Match Plan under Section 408(p) of the Internal Revenue Code. Effectively, all employees are eligible to participate in the plan and may defer a portion of salary. SFMade will make a matching contribution of employee contributions up to 3% of the employee's compensation. SFMade's contribution was approximately \$32,900 for the year ended December 31, 2018.

**SFMade, Inc. and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**(See Independent Auditors' Report)**

December 31, 2018

	<u>SFMade, Inc.</u>	<u>PlaceMade, Inc.</u>	<u>150 Hooper, Inc.</u>	<u>Eliminations</u>	<u>Total Consolidating</u>
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 164,058	\$ 220,059	\$ 3,000,990		\$ 3,385,107
Accounts, contributions, and other receivables	186,924	5,580	108,381		300,885
Related party accounts/loan receivable	454,077	186,061	106,372	\$ (746,510)	-
Prepaid expenses and other assets	25,985	2,189	12,480		40,654
Total current assets	831,044	413,889	3,228,223	(746,510)	3,726,646
Loans receivable, net		16,706,080			16,706,080
Property and equipment, net	56,565		37,101,519	(174,060)	36,984,024
Total assets	\$ 887,609	\$ 17,119,969	\$ 40,329,742	\$ (920,570)	\$ 57,416,750
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued expenses	\$ 127,691	\$ 41,728	\$ 81,182		\$ 250,601
Construction costs payable			1,235,374		1,235,374
Line of credit	150,000				150,000
Related party accounts/loan payable	21,372	537,267	187,871	\$ (746,510)	-
Total current liabilities	299,063	578,995	1,504,427	(746,510)	1,635,975
<b>Long-Term Liabilities:</b>					
Loans payable, less unamortized deferred loan costs		8,573,438	23,698,000		32,271,438
Tenant security deposits			341,062		341,062
Total liabilities	299,063	9,152,433	25,543,489	(746,510)	34,248,475
<b>Net Assets:</b>					
Without donor restrictions	468,323	7,967,536	14,786,253	(174,060)	23,048,052
With donor restrictions	120,223				120,223
Total net assets	588,546	7,967,536	14,786,253	(174,060)	23,168,275
Total liabilities and net assets	\$ 887,609	\$ 17,119,969	\$ 40,329,742	\$ (920,570)	\$ 57,416,750

## SFMade, Inc. and Subsidiaries

### Consolidating Statement of Activities and Changes in Net Assets (See Independent Auditors' Report)

*Year Ended December 31, 2018*

	SFMade, Inc.	PlaceMade, Inc.	150 Hooper, Inc.	Eliminations	Total Consolidating
<b>Support and Revenue:</b>					
Grants and contributions	\$ 920,730	\$ 10,000,000	\$ 15,240,270	\$ (1,769,170)	\$ 24,391,830
Government grants	606,279				606,279
Program revenue:					
Manufacturing sector services	259,393				259,393
Affordable industrial space development		234,748		(210,060)	24,688
Rental income			318,091	(21,372)	296,719
Interest income	23	426,675	7		426,705
<b>Total support and revenue</b>	<b>1,786,425</b>	<b>10,661,423</b>	<b>15,558,368</b>	<b>(2,000,602)</b>	<b>26,005,614</b>
<b>Expenses:</b>					
Program services:					
Advising and education	747,720			(8,288)	739,432
Workforce and youth	191,171			(2,166)	189,005
Policy and practice	495,213			(5,611)	489,602
Affordable industrial space		2,424,494	754,896	(1,805,170)	1,374,220
<b>Total program services</b>	<b>1,434,104</b>	<b>2,424,494</b>	<b>754,896</b>	<b>(1,821,235)</b>	<b>2,792,259</b>
General and administrative	280,698	61,356	16,280	(3,375)	354,959
Fundraising	171,401	-	939	(1,932)	170,408
<b>Total expenses</b>	<b>1,886,203</b>	<b>2,485,850</b>	<b>772,115</b>	<b>(1,826,542)</b>	<b>3,317,626</b>
<b>Changes in Net Assets</b>	<b>(99,778)</b>	<b>8,175,573</b>	<b>14,786,253</b>	<b>(174,060)</b>	<b>22,687,988</b>
<b>Net Assets, Beginning of Year</b>	<b>688,324</b>	<b>(208,037)</b>	<b>-</b>	<b>-</b>	<b>480,287</b>
<b>Net Assets, End of Year</b>	<b>\$ 588,546</b>	<b>\$ 7,967,536</b>	<b>\$ 14,786,253</b>	<b>\$ (174,060)</b>	<b>\$ 23,168,275</b>