# SFMade, Inc. and Subsidiaries

December 31, 2020

Independent Auditors' Report

and

Consolidated Financial Statements

# SFMade, Inc. and Subsidiaries

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

**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, 2020, 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, 2020, 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.

**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 21 and 22 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
August 3, 2021

# SFMade, Inc. and Subsidiaries

## Consolidated Statement of Financial Position

*December 31, 2020*

| | | |
|---|---|---|
| **Assets** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ | 2,535,676 |
| Accounts, contributions, and other receivables | | 562,961 |
| Prepaid expenses and other assets | | 27,563 |
| Total current assets | | 3,126,200 |
| **Loans receivable,** net | | 16,706,080 |
| **Property and Equipment**, net | | 35,839,912 |
| Total assets | $ | 55,672,192 |
| **Liabilities and Net Assets** | | |
| **Current Liabilities:** | | |
| Accounts payable and accrued expenses | $ | 121,278 |
| Current portion of loans payable | | 138,931 |
| Loans payable - Paycheck Protection Program | | 259,000 |
| Total current liabilities | | 519,209 |
| **Long-Term Liabilities:** | | |
| Loans payable, net of current portion | | 32,258,057 |
| Tenant security deposits | | 281,852 |
| Total liabilities | | 33,059,118 |
| **Net Assets:** | | |
| Without donor restrictions | | 21,990,591 |
| With donor restrictions | | 622,483 |
| Total net assets | | 22,613,074 |
| Total liabilities and net assets | $ | 55,672,192 |

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, 2020*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Support and Revenue:** | | | |
| Grants and contributions | $ 416,262 | $ 745,000 | $ 1,161,262 |
| Government grants | 1,175,632 | | 1,175,632 |
| Program revenue: | | | |
| Manufacturing sector services | 43,715 | | 43,715 |
| Affordable industrial space development | 33,400 | | 33,400 |
| Rental income | 1,416,932 | | 1,416,932 |
| Interest income | 562,714 | | 562,714 |
| | 3,648,655 | 745,000 | 4,393,655 |
| Net assets released from restrictions | 554,983 | (554,983) | - |
| Total support and revenue | 4,203,638 | 190,017 | 4,393,655 |
| **Expenses:** | | | |
| Program services: | | | |
| Policy and practice | 1,699,323 | | 1,699,323 |
| Affordable industrial space | 2,678,571 | | 2,678,571 |
| Total program services | 4,377,894 | | 4,377,894 |
| General and administrative | 332,587 | | 332,587 |
| Fundraising | 162,869 | | 162,869 |
| Total expenses | 4,873,350 | - | 4,873,350 |
| **Changes in Net Assets** | (669,712) | 190,017 | (479,695) |
| **Net Assets**, Beginning of Year | 22,660,303 | 432,466 | 23,092,769 |
| **Net Assets**, End of Year | $ 21,990,591 | $ 622,483 | $ 22,613,074 |

See accompanying notes to the consolidated financial statements.

# SFMade, Inc. and Subsidiaries

## Consolidated Statement of Functional Expenses

*Year Ended December 31, 2020*

| | 2020 | | | |
|---|---|---|---|---|
| | Program Services | General and Administrative | Fundraising | Total |
| Salaries | $ 1,168,406 | $ 147,315 | $ 108,113 | $ 1,423,834 |
| Payroll taxes and benefits | 250,611 | 32,271 | 24,407 | 307,289 |
| Total salaries, payroll taxes and benefits | 1,419,017 | 179,586 | 132,520 | 1,731,123 |
| Interest | 951,641 | 224 | 208 | 952,073 |
| Consultants and contractors | 353,125 | | | 353,125 |
| Property management expenses | 238,904 | | | 238,904 |
| Depreciation and amortization | 516,139 | 1,648 | 1,530 | 519,317 |
| Accounting and auditing | | 77,700 | | 77,700 |
| Property tax | 246,050 | | | 246,050 |
| Marketing | 85,400 | 9,112 | 9,046 | 103,558 |
| Events | 13,321 | | 6,573 | 19,894 |
| Legal | 37,547 | 2,226 | 2,067 | 41,840 |
| Travel | 6,588 | 886 | 1,494 | 8,968 |
| Occupancy | 673 | 395 | 366 | 1,434 |
| Insurance | 17,116 | 40,477 | 967 | 58,560 |
| Other expenses | 16,902 | 16,914 | 2,172 | 35,988 |
| Office expenses | 7,463 | 1,097 | 1,032 | 9,592 |
| Information technology | 20,943 | 2,322 | 4,894 | 28,159 |
| Reimbursement of SFCIF expenses | 132,000 | | | 132,000 |
| Bad debt expense | 315,065 | | | 315,065 |
| Total expenses | $ 4,377,894 | $ 332,587 | $ 162,869 | $ 4,873,350 |

See accompanying notes to the consolidated financial statements.

# SFMade, Inc. and Subsidiaries

## Consolidated Statement of Cash Flows

| *Year Ended December 31, 2020* | | |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Change in net assets | $ | (479,695) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation | | 499,067 |
| Amortization of loan issuance costs | | 20,250 |
| Bad debt write-offs | | 315,065 |
| Forgiveness of Paycheck Protection Program loan proceeds | | (28,000) |
| Changes in assets and liabilities: | | |
| Receivables | | (250,672) |
| Prepaid expenses and other assets | | 11,129 |
| Tenant security deposits | | (48,794) |
| Accounts payable and accrued expenses | | (60,855) |
| Net cash used by operating activities | | (22,505) |
| **Cash Flows from Investing Activities:** | | |
| Purchase of property and equipment | | (88,801) |
| Net cash used by investing activities | | (88,801) |
| **Cash Flows from Financing Activities:** | | |
| Borrowings on line of credit | | 150,000 |
| Payments on line of credit | | (150,000) |
| Payments on loans payable | | (64,950) |
| Proceeds from issuance of loans payable | | 437,000 |
| Net cash provided by financing activities | | 372,050 |
| **Net Increase in Cash and Cash Equivalents** | | 260,744 |
| **Cash and Cash Equivalents**, Beginning of Year | | 2,274,932 |
| **Cash and Cash Equivalents**, End of Year | $ | 2,535,676 |
| **Supplemental Disclosure of Cash Paid:** | | |
| Interest | $ | 952,073 |

See accompanying notes to the consolidated financial statements.

## 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.

**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.

SFMade has no net assets with donor restrictions of a perpetual nature at December 31, 2020.

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.

A portion of SFMade's revenue is derived from cost-reimbursable government grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as without donor restrictions revenue when SFMade has incurred expenditures in compliance with specific contract or grant provisions. Amounts expended in excess of reimbursements are reported as receivables until reimbursed in the consolidated statement of financial position. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position.

Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Government grants and contracts are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. SFMade received cost-reimbursable grants of approximately $624,800, of which no amounts had been received in advance, that have not been recognized at December 31, 2020 because qualifying expenditures have not yet been incurred. SFMade received a conditional promise to give from one organization amounting to approximately $412,500 which has not been recorded at December 31, 2020 because the conditions on which it depends have not yet been met.

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. At December 31, 2020, 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 and consulting services. Consulting service revenue is recognized over time as the customer consumes the benefits of the consulting services SFMade performs. Educational workshops are recognized when the performance obligation of providing the educational workshop is satisfied. 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, 2020, SFMade regularly held cash deposits in excess of federally insured limits.

Certain cash balances are restricted under the New Market Tax Credit agreements as disclosed in Note 6.

g. Prepaid Expenses and Other Assets

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

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.

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, and other are allocated among program, general and administrative, and fundraising based on the time and effort method of allocation. Depreciation, interest, and property tax expenses related to 150 Hooper are considered program while all other of these type of expenses are allocated among program, general and administrative, and fundraising based on the time and effort method of allocation.

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, 2020, 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

*Pronouncements Effective in the Future*

In February 2016, the 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. In June 2020, the FASB deferred the effective date to fiscal years beginning after December 15, 2021. 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 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. The guidance creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. This guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The standard is effective for fiscal years beginning after December 15, 2022. SFMade is currently evaluating the impact of this pronouncement.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. This guidance changes the required presentation and disclosures for in-kind contributions. The guidance is effective for SFMade for the fiscal year beginning after June 15, 2021 with early application permitted. SFMade is currently evaluating the impact of this pronouncement.

o. Subsequent Events

SFMade evaluated subsequent events from December 31, 2020 through August 3, 2021, 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, except as disclosed in Notes 8, 10, and 13.

## Note 3 - Availability and Liquidity:

The following represents SFMade's financial assets at December 31, 2020:

| | |
|---|---|
| Financial assets at year-end: | |
| Cash and cash equivalents | $ 2,535,676 |
| Accounts, contributions, and other receivables | 562,961 |
| Loans receivable, net | 16,706,080 |
| Total financial assets | 19,804,717 |
| Amounts not available to be used within one year: | |
| Net assets with donor restrictions | 622,483 |
| Less net assets with purpose restrictions to be met in one year | (61,000) |
| Long term loans receivables | (16,706,080) |
| Contractual imposed restrictions: | |
| Restricted cash accounts under the New Market Tax Credit agreements | (711,000) |
| Tenant security deposits | (282,000) |
| | (17,137,597) |
| Financial assets available to meet general expenditures over the next twelve months | $ 2,667,120 |

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 $300,000 line of credit available to meet cash flow needs (see Note 8). There was no outstanding balance at December 31, 2020.

## Note 4 - Property and Equipment:

Property and equipment at December 31, 2020 was comprised of the following:

| | |
|---|---|
| Land | $ 13,471,100 |
| Building and improvements | 23,441,120 |
| Furniture and equipment | 121,061 |
| Subtotal | 37,033,281 |
| Less accumulated depreciation | (1,193,369) |
| Total | $ 35,839,912 |

In 2018, SFMade purchased 150 Hooper Street which comprises all the building and improvements and land held by SFMade on the consolidated statement of financial position, 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 $499,067 for the year ended December 31, 2020. Property and equipment are collateral for the debt agreements as described in Notes 6, 7, and 8.

## Note 5 - Net Assets With Donor Restrictions:

As of December 31, 2020, net assets with donor restrictions are available for the following purposes or periods:

| | |
|---|---|
| San Jose region | $ 255,738 |
| San Francisco region | 303,151 |
| Regional | 56,094 |
| Time | 7,500 |
| | $ 622,483 |

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 during the year ended December 31, 2020:

| | |
|---|---|
| San Jose region | $ 252,679 |
| San Francisco region | 279,849 |
| Regional | 12,905 |
| Time | 9,550 |
| | $ 554,983 |

## 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 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. Loan funds not applied to the purchase described above are available for certain expenditures as described in the NMTC agreements and are recorded in restricted cash. The balance of the loan funds remaining at December 31, 2020 of approximately $711,000 is restricted and included in cash and cash equivalents in the accompanying consolidated statement of financial position. 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.

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 was 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. In 2018, debt issuance costs of $141,750 were incurred and are being amortized over the life of the loan. In 2019, Northern California Community Loan Fund, Inc. changed its name to Community Vision Capital & Consulting (CVCC). On June 8, 2020, PlaceMade entered into a loan modification with CVCC to provide for a payment reprieve period from the period April 1, 2020 through June 1, 2020 on the monthly debt service payments. The amortization schedule was revised to incorporate the deferral of the payment of debt service during the payment reprieve period into the monthly debt service payments that re-started July 1, 2020. The portion of the debt service payments attributable to interest and otherwise payable during the payment reprieve period will be repaid ratably during the period of July 1, 2020 to June 30, 2021. 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. As of December 31, 2020, PlaceMade was not in compliance with the one of the non-financial covenants and has received a waiver from CVCC. 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.

On June 17, 2020, SFMade, Inc. entered into a loan agreement with the U.S. Small Business Administration (SBA) for an Economic Injury Disaster Loan (EIDL) loan. The loan is $150,000, bearing interest at 2.75% per annum. Twelve months after of the commencement of the loan, payments of interest and principal are due monthly through June 17, 2050, the maturity date. Eligibility for this EIDL loan is limited to disaster losses that are not compensated by other sources including contributions and government grants. The loan proceeds are intended for working capital to alleviate economic injury caused by disaster occurring in the month of January 31, 2020. There are restrictions on the use of loan proceeds as defined in the loan agreement and the loan is subject to audit by the SBA. The loan is collateralized by substantially all assets of SFMade, Inc. and any future borrowings that are collateralized by these assets need prior approval from the SBA.

Loans payable as of December 31, 2020 consist of the following:

| | |
|---|---|
| CVCC loan | $ 8,635,050 |
| CDE loans (see Note 6) | 23,698,000 |
| EIDL loan | 150,000 |
| | 32,483,050 |
| Less current portion | (138,931) |
| Less unamortized debt issuance costs | (86,062) |
| Total | $ 32,258,057 |

The future schedule of principal payments as of December 31, 2020 is summarized as follows:

| Year Ending December 31, | CVCC | CDEs | EIDL | Total |
|---|---|---|---|---|
| 2021 | $ 136,836 | | $ 2,095 | $ 138,931 |
| 2022 | 144,665 | | 3,671 | 148,336 |
| 2023 | 152,941 | | 3,773 | 156,714 |
| 2024 | 160,389 | | 3,878 | 164,267 |
| 2025 | 8,040,219 | | 3,986 | 8,044,205 |
| Thereafter | | $ 23,698,000 | 132,597 | 23,830,597 |
| Total | $ 8,635,050 | $ 23,698,000 | $ 150,000 | $ 32,483,050 |

**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, 2020.

*Line of Credit*

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. In 2019, the term of the agreement was extended until April 15, 2020. The line of credit was not renewed after April 15, 2020.

SFMade, Inc. entered into a line of credit of $300,000 with Signature Bank with an effective date of May 7, 2020 expiring May 6, 2021. The interest rate is Prime minus 0.50%, however the interest rate cannot be less than 3.25%. The interest rate at December 31, 2020 was 3.25%. 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 including approval of additional debt. As of December 31, 2020, SFMade, Inc. was not in compliance with the one of the non-financial covenants and has received a waiver from Signature Bank. There were no amounts outstanding under this line of credit at December 31, 2020. Subsequent to year end, the line of credit agreement was renewed with an effective date of May 6, 2021 extending the maturity date to May 5, 2022.

## 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, 2020, including changes to lease agreements through the date of this report, for the next five years and thereafter are as follows:

| Year Ending December 31, | |
|---|---|
| 2021 | $ 1,018,000 |
| 2022 | 583,000 |
| 2023 | 456,000 |
| 2024 | 65,000 |
| 2025 | 66,000 |
| Thereafter | 391,000 |
| | $ 2,579,000 |

## Note 11 - Related Party Transactions:

For the year ended December 31, 2020, contributions from members of the Board of Directors and the corporations by whom they are employed totaled approximately $39,500. At December 31, 2020, there were no contributions receivable from members of the Board of Directors or the corporations by whom they are employed.

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

## Note 12 - Retirement Plan:

SFMade has 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 $28,500 for the year ended December 31, 2020.

## Note 13 - COVID-19 Pandemic and CARES Act Funding:

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. Many federal, state and local governmental agencies declared a state of emergency and issued a variety of recommendations impacting travel, group gatherings, etc. These actions have had a significant effect on SFMade's operations in many ways. The staff at SFMade continue to work virtually to comply with state and local mandates for sheltering in place and social distancing.

In addition, SFMade participated in several government funded opportunities that have provided a critical funding cushion in this uncertain time. This includes the Paycheck Protection Program (PPP) as well as the EIDL (See Note 7). These programs have enabled SFMade to continue forward with the growth plans in a more secure position given the broader uncertainty facing society in general, and higher education more specifically.

During April 2020, SFMade, Inc. and 150 Hooper received PPP loan proceeds in the amount of $259,000 and $28,000, respectively. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest may be forgivable as long as SFMade, Inc. and 150 Hooper use the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its personnel levels. The amount of loan forgiveness will be reduced if certain requirements are not met. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%. If SFMade, Inc. and 150 Hooper submit their loan forgiveness application within ten months of the completion of its loan forgiveness covered period, SFMade, Inc. and 150 Hooper will not be required to make any payments until the forgiveness amount has been communicated by the lender. If any or all of the loan is not forgiven, the unforgiven balance must be repaid by the maturity date of the loan. SFMade, Inc. and 150 Hooper believe their use of proceeds was consistent with the requirements of the PPP.

150 Hooper submitted its loan forgiveness application during 2020. In December 2020, the SBA informed 150 Hooper the PPP loan and accrued interest were forgiven in full. 150 Hooper recognized the forgiveness of this debt of $28,000 as government grants in the accompanying consolidated statement of activities and changes in net assets for the year ended December 31, 2020.

While SFMade, Inc. currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, SFMade, Inc. cannot assure that it will not take actions that could cause SFMade, Inc. to be ineligible for forgiveness of the loan, in whole or in part. Subsequent to year end, SFMade, Inc. submitted its loan forgiveness application on March 8, 2021. Subsequent to year end, the SBA informed SFMade, Inc., the PPP loan and accrued interest were forgiven in full on April 5, 2021.

# SFMade, Inc. and Subsidiaries

## Consolidating Statement of Financial Position
## (See Independent Auditors' Report)

*December 31, 2020*

| | SFMade, Inc. | PlaceMade, Inc. | 150 Hooper, Inc. | Eliminations | Total Consolidating |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current Assets:** | | | | | |
| Cash and cash equivalents | $ 831,874 | $ 236,347 | $ 1,467,455 | | $ 2,535,676 |
| Accounts, contributions, and other receivables | 377,549 | | 185,412 | | 562,961 |
| Related party accounts receivable | 12,736 | 70,000 | 70,303 | $ (153,039) | - |
| Related party loan receivable | | 140,661 | | (140,661) | - |
| Prepaid expenses and other assets | 17,725 | 3,681 | 6,157 | | 27,563 |
| Total current assets | 1,239,884 | 450,689 | 1,729,327 | (293,700) | 3,126,200 |
| **Loans receivable,** net | | 16,706,080 | | | 16,706,080 |
| **Property and equipment,** net | 17,330 | | 35,822,582 | | 35,839,912 |
| Total assets | $ 1,257,214 | $ 17,156,769 | $ 37,551,909 | $ (293,700) | $ 55,672,192 |
| **Liabilities and Net Assets** | | | | | |
| **Current Liabilities:** | | | | | |
| Accounts payable and accrued expenses | $ 88,860 | $ 371 | $ 32,047 | | $ 121,278 |
| Related party accounts payable | 303 | 80,000 | 72,736 | $ (153,039) | - |
| Related party loan payable | | | 140,661 | (140,661) | - |
| Current portion of loans payable | 2,095 | 136,836 | | | 138,931 |
| Loans payable - Paycheck Protection Program | 259,000 | | | | 259,000 |
| Total current liabilities | 350,258 | 217,207 | 245,444 | (293,700) | 519,209 |
| **Long-Term Liabilities:** | | | | | |
| Loans payable, net | 147,905 | 8,412,152 | 23,698,000 | | 32,258,057 |
| Tenant security deposits | | | 281,852 | | 281,852 |
| Total liabilities | 498,163 | 8,629,359 | 24,225,296 | (293,700) | 33,059,118 |
| **Net Assets:** | | | | | |
| Without donor restrictions | 136,568 | 8,527,410 | 13,326,613 | | 21,990,591 |
| With donor restrictions | 622,483 | | | | 622,483 |
| Total net assets | 759,051 | 8,527,410 | 13,326,613 | - | 22,613,074 |
| Total liabilities and net assets | $ 1,257,214 | $ 17,156,769 | $ 37,551,909 | $ (293,700) | $ 55,672,192 |

# SFMade, Inc. and Subsidiaries

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

*Year Ended December 31, 2020*

| | SFMade, Inc. | PlaceMade, Inc. | 150 Hooper, Inc. | Eliminations | Total Consolidating |
|---|---|---|---|---|---|
| **Support and Revenue:** | | | | | |
| Grants and contributions | $ 1,161,262 | $ 94,279 | $ 70,000 | $ (164,279) | $ 1,161,262 |
| Government grants | 1,147,632 | | 28,000 | | 1,175,632 |
| Program revenue: | | | | | |
| Manufacturing sector services | 43,715 | | | | 43,715 |
| Affordable industrial space development | | 256,548 | 4,852 | (228,000) | 33,400 |
| Rental income | | | 1,472,514 | (55,582) | 1,416,932 |
| Interest income | 68 | 562,646 | | | 562,714 |
| Total support and revenue | 2,352,677 | 913,473 | 1,575,366 | (447,861) | 4,393,655 |
| **Expenses:** | | | | | |
| Program services: | | | | | |
| Policy and practice | 1,741,945 | | | (42,622) | 1,699,323 |
| Affordable industrial space | | 609,170 | 2,372,200 | (302,799) | 2,678,571 |
| Total program services | 1,741,945 | 609,170 | 2,372,200 | (345,421) | 4,377,894 |
| General and administrative | 334,634 | 30,334 | 66,130 | (98,511) | 332,587 |
| Fundraising | 166,798 | | | (3,929) | 162,869 |
| Total expenses | 2,243,377 | 639,504 | 2,438,330 | (447,861) | 4,873,350 |
| **Changes in Net Assets** | 109,300 | 273,969 | (862,964) | - | (479,695) |
| **Net Assets**, Beginning of Year | 649,751 | 8,253,441 | 14,189,577 | - | 23,092,769 |
| **Net Assets**, End of Year | $ 759,051 | $ 8,527,410 | $ 13,326,613 | $ - | $ 22,613,074 |