

RYSE, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

February 28, 2020

Board of Directors
RYSE, Inc.
Richmond, California

I have audited the consolidated financial statements of RYSE, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, 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 the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Board of Directors
RYSE, Inc.
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Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RYSE, Inc. as of June 30, 2019, 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 Matters

Supplemental Information

The supplemental schedules on pages 20 through 21 are not a required part of the basic financial statements but are supplementary information requested by the Organization. The information contained in those schedules has been subjected to the audit procedures applied to the basic financial statements. In my opinion, this additional information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.


Healy and Associates
Concord, California

RYSE, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,309,553
Grants, contracts, and accounts receivable	1,424,974
Prepaid expenses	18,823
Cash - restricted for construction disbursements	<u>9,209,396</u>

TOTAL CURRENT ASSETS 11,962,746

FIXED ASSETS, net 2,211,532

OTHER ASSETS

Cash - restricted for CDE reserve	488,988
Leveraged loan receivable	<u>7,816,665</u>

TOTAL OTHER ASSETS 8,305,653

TOTAL ASSETS \$ 22,479,931

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 179,599
Note payable, current portion	<u>500,000</u>

TOTAL CURRENT LIABILITIES 679,599

Note payable, long-term portion, net of debt issuance costs	4,904,255
NMTC notes payable	<u>11,088,000</u>

TOTAL LIABILITIES 16,671,854

COMMITMENTS AND CONTINGENCIES

NET ASSETS

Without donor restrictions	2,562,682
With donor restrictions	<u>3,245,395</u>

TOTAL NET ASSETS 5,808,077

TOTAL LIABILITIES AND NET ASSETS \$ 22,479,931

RYSE, INC.**CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>
REVENUE AND SUPPORT			
Foundation grants and contributions	\$ 1,251,296	\$ 3,016,573	\$ 4,267,869
Government contracts	1,160,840	-	1,160,840
Program service fees	42,187	-	42,187
Interest and earnings	999	-	999
Donation of property	425,000	-	425,000
Events	42,405	-	42,405
In-kind income	25,435	-	25,435
Other	114,486	-	114,486
	<u>3,062,648</u>	<u>3,016,573</u>	<u>6,079,221</u>
Net assets released from restriction	<u>931,396</u>	<u>(931,396)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>3,994,044</u>	<u>2,085,177</u>	<u>6,079,221</u>
EXPENSES:			
Program	2,316,299	-	2,316,299
General and administrative	591,738	-	591,738
Fundraising	166,951	-	166,951
	<u>3,074,988</u>	<u>-</u>	<u>3,074,988</u>
CHANGE IN NET ASSETS	919,056	2,085,177	3,004,233
NET ASSETS, beginning of year	<u>1,643,626</u>	<u>1,160,218</u>	<u>2,803,844</u>
NET ASSETS, end of year	<u>\$ 2,562,682</u>	<u>\$ 3,245,395</u>	<u>\$ 5,808,077</u>

See Notes to Consolidated Financial Statements

RYSE, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program	General and Administrative	Fundraising	Total
PERSONNEL COSTS:				
Compensation	\$ 1,249,027	\$ 415,075	\$ 110,460	\$ 1,774,562
Payroll taxes	112,539	33,834	9,285	155,658
Employee benefits	174,446	58,906	11,093	244,445
TOTAL PERSONNEL COSTS	1,536,012	507,815	130,838	2,174,665
OPERATING EXPENSES:				
Consultants	129,654	25,998	-	155,652
Program contractors	109,453	-	-	109,453
Program supplies	63,447	2,226	80	65,753
Stipends	62,883	(249)	-	62,634
Facilities security and maintenance	58,159	1,561	-	59,720
Equipment, rental, and maintenance	36,621	8,292	3,175	48,088
Depreciation	41,358	1,987	766	44,111
Travel	35,826	3,725	113	39,664
Evaluation	34,373	1,260	-	35,633
Events and meetings	25,436	458	1,216	27,110
In-kind expenses	25,435	-	-	25,435
Insurance	7,210	17,350	-	24,560
Telecommunications	18,193	2,058	1,921	22,172
Staff development	16,109	5,196	685	21,990
Fees, licenses, and taxes	17,637	160	-	17,797
Fundraising	200	1,466	15,664	17,330
Supplies	9,640	5,236	425	15,301
Fieldtrips and retreats	14,483	222	-	14,705
Emergency assistance	13,892	-	-	13,892
Utilities	13,263	-	-	13,263
Advertising and promotion	10,016	-	1,163	11,179
Bad debt	7,338	3,818	-	11,156
Printing	8,846	313	749	9,908
Special event	1,894	-	7,871	9,765
Dues and subscriptions	5,884	1,138	686	7,708
Payroll fees	4,765	1,044	-	5,809
Miscellaneous	3,045	325	727	4,097
Postage and delivery	1,682	190	352	2,224
Bank charges and fees	1,467	149	520	2,136
Rent	2,078	-	-	2,078
TOTAL OPERATING EXPENSES	780,287	83,923	36,113	900,323
TOTAL EXPENSES	\$ 2,316,299	\$ 591,738	\$ 166,951	\$ 3,074,988

See Notes to Consolidated Financial Statements

RYSE, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

CASH PROVIDED BY OPERATING ACTIVITIES:	
Change in net assets	\$ 3,004,233
ADJUSTMENTS TO RECONCILE TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation and amortization	44,111
Donation of property	(425,000)
CHANGES IN CURRENT ASSETS AND CURRENT LIABILITIES:	
Grants and contracts receivable	(798,995)
Prepaid expenses	(2,664)
Accounts payable and accrued liabilities	<u>45,524</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,867,209</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash paid in exchange for leveraged loan receivable	(7,816,665)
Purchase of property and equipment, net	<u>(1,321,332)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(9,137,997)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowing on note payable	5,500,000
Debt issuance costs	(95,745)
Proceeds from issuance of NMTC notes payable	11,088,000
Changes in restricted cash account	<u>(9,698,384)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>6,793,871</u>
NET CHANGE IN CASH	(476,917)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,786,470</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,309,553</u></u>

See Notes to Consolidated Financial Statements

RYSE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE A – NATURE OF ACTIVITIES

RYSE, Inc. (RYSE or Organization) is a nonprofit public benefit corporation, incorporated in California in 2007. They have locations in Richmond, California. RYSE supports the healthy development of young people through a holistic approach that engages young people in programs and services grounded in principles of youth leadership and social justice. The four main programs run by RYSE are:

Education + Justice - Strengthening young people's ability to successfully navigate education and juvenile justice systems, empowering them to be advocates for change and agents in their own liberation.

Youth Leadership + Advocacy - Ensuring young people serve as key stakeholders and decision-makers on issues and policies impacting their individual and collective well-being.

Media, Arts + Culture - Elevating youth voices by providing access to loving and talented teaching artists, media equipment, and professional development training in the areas of music, video production, visual and performing arts.

Community Health - Providing young people with direct services, education, and advocacy to support individual and community health, and working towards policies and systems that are empathetic to their needs.

During the year ended June 30, 2019, RYSE, Inc. (RYSE) established RYSE Commons, Inc. (RC), an affiliated California nonprofit corporation which is in the process of seeking exemption from income taxes under Section 501(c)(2) of the Internal Revenue Code (IRC) and applicable state law. RC was formed to facilitate a New Markets Tax Credit (NMTC) transaction for the RC construction and redevelopment project of 3939 Bissell Avenue, Richmond, California. Throughout the remainder of these notes the term RYSE or the Organization will refer to both RYSE and RC unless otherwise indicated.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements contain the financial statements of RYSE, Inc. and RYSE Commons, Inc. Any significant intercompany balances and transactions have been eliminated in consolidation.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Method and Basis of Presentation

The accounting records of RYSE are maintained on the accrual basis of accounting. The consolidated financial statements of RYSE have been prepared in accordance with ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, which require RYSE to report information regarding its financial position and activities according to the following net asset classifications:

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 RYSE. These net assets may be used at the discretion of RYSE's management and the board of directors.

Net assets 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 RYSE or by the passage of time. Other donor restrictions are perpetual in nature, where by 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, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires RYSE to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months, which are neither held for nor restricted by donors for long term purposes. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Cash in Restricted Construction Accounts

Unspent cash from the NMTC transaction is reflected as restricted cash on the consolidated statement of financial position. Its use is restricted for the Bissell Avenue project.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Accounts Receivable

Grants and accounts receivable are receivables primarily from donors, governmental agencies, and individuals, which are considered collectible. Therefore, no allowance for doubtful accounts has been provided.

Fixed Assets

Fixed asset additions, in excess of \$5,000, are recorded at cost, or if donated, at fair value on the date of donation, less accumulated depreciation. Depreciation is computed using the 150% and 200% declining balance method over the estimated useful lives of the related assets for improvements and equipment, respectively. Maintenance and repairs that do not extend the useful lives of the respective assets are expensed as incurred.

Fair Value Measurements

RYSE's financial instruments include cash and cash equivalents measured using Level 1 inputs. Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). RYSE groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- **Level 1**— Quoted prices for identical assets and liabilities in active markets.
- **Level 2**—Observable inputs other than Level 1, which include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- **Level 3**— Unobservable inputs that cannot be corroborated by observable market data.

Donated Services and In-Kind Contributions

RYSE receives goods and services, which are donated for carrying out its mission. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. For the year ended June 30, 2019, RYSE recognized \$25,435 in donated software licenses and \$425,000 in donated real property. The amounts are reflected in the accompanying statement of activities.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Exemption Status

RYSE, Inc. has received exempt status under section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the State of California Revenue and Taxation Code. RYSE, Inc. is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS along with related state filings. The related tax returns are subject to examination by federal and state taxing authorities generally for three years after they are filed. RYSE, Inc. has no unrelated business income, and Management has analyzed tax positions taken and has concluded that, as of June 30, 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements.

RYSE Commons, Inc. is a newly formed nonprofit seeking exemption from the Internal Revenue Service and the California Franchise Tax Board. RYSE Commons, Inc. has no unrelated business income, and Management has analyzed tax positions taken and has concluded that, as of June 30, 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements.

Revenue Recognition

RYSE is supported primarily through foundation grants, government contracts, and contributions. In accordance with ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As permitted by ASC 958, donor-restricted contributions whose restrictions are met in the same year may be reported as support without donor restrictions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of program activities and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. The statement presents the natural classification of detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect costs such as general and administrative expenses include costs that are not directly identifiable with any specific program, but which provide the overall support and direction of RYSE. Such expenses which are common to multiple functions have been allocated among the various functions benefited, either using square feet of space or personnel time records.

Change in Accounting Principles

During the year ended June 30, 2019, RYSE adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), required for annual reporting periods beginning after December 15, 2017. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability has also been added.

Recent Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards ("IFRS"), the FASB issued 2014-09, *Revenue from Contracts with Customers* (Topic 606). The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and will become effective for private companies for annual periods beginning after December 15, 2018. The FASB has issued several updates to the standard which, i) defer the original effective date from January 1, 2018 to January 1, 2019, while allowing for early

RYSE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

adoption as of January 1, 2018 (ASU 2015-14); ii) clarify the application of the principal versus agent guidance (ASU 2016-08); and iii) clarify the guidance on inconsequential and perfunctory promises and licensing (ASU 2016-10). In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers* (Topic 606) *Narrow-Scope Improvements and Practical Expedients*, to address certain narrow aspects of the guidance including collectability criterion, collection of sales taxes from customers, noncash consideration, contract modifications and completed contracts. This issuance does not change the core principle of the guidance in the initial topic issued in May 2014. RYSE is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. RYSE is currently evaluating impact of adopting this new guidance on its consolidated financial statements.

NOTE C – GRANTS, CONTRACTS, AND ACCOUNTS RECEIVABLE

Grants and contracts receivable at June 30, 2019 consist of the following:

Contracts receivable	\$896,262
Grants receivable	452,985
QALICB transaction receivable	48,000
Other accounts receivable	27,727
Total grants and contracts receivable	<u>\$ 1,424,974</u>

RYSE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE D – FIXED ASSETS

Fixed assets at June 30, 2019 consist of the following:

Land	\$ 324,250
Buildings	552,742
Furniture, fixtures, and equipment	258,976
Construction in progress	<u>1,418,179</u>
Total fixed assets	<u>2,554,147</u>
Less: accumulated depreciation	<u>(342,615)</u>
Total fixed assets, net	<u>\$ 2,211,532</u>

Depreciation expense for the year ended June 30, 2019 is \$44,111.

NOTE E – LEVERAGED LOAN RECEIVABLE

On June 26, 2019, RYSE lent \$7,816,665 to Twain Investment Fund 378, LLC for the purpose of funding the property renovation of RYSE Commons through New Market Tax Credits. The note carries annual interest of 1.5770% with interest payments to begin December 2019 and matures June 26, 2054. The note is interest only through June 2027 with amortization beginning July 1, 2028.

After the Compliance Period, there are put and call agreements between RYSE and the investor. It is anticipated that the NMTC investor will put their option and RYSE will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. This action will essentially result in forgiveness of these loans as well as extinguishment of RYSE's debt described in Note H.

In order to fund the above loan, RYSE paid \$7,816,665 in cash on hand (including \$5,500,000 in bridge loan funding).

RYSE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE F – NOTE PAYABLE

On June 26, 2019, RYSE borrowed \$5,500,000 from Raza Development Fund, Inc. in connection with the RYSE Commons project (See Note G). The note carries annual interest of 6.5% and matures January 1, 2027, except in the event of default. Interest payments are to begin October 2019. Future maturities are as follows:

<u>Year ended June 30</u>	
2020	\$ 500,000
2021	\$ 1,000,000
2022	\$ 1,000,000
2023	\$ 250,000
2024	\$ 250,000
2025	\$ 250,000
2026	\$ 250,000
2027	\$ 2,000,000

In addition, the Organization recorded a contra-liability for the debt issuance costs of \$95,745, which will be amortized over the life of the lease. No amortization expense was recognized for the year ended June 30, 2019.

NOTE G – NEW MARKET TAX CREDIT PROJECT

At the end of June 2019, RYSE, Inc. executed agreements and related documents as necessary in connection with the closing of the New Markets Tax Credit (“NMTC”) financing transaction for the RYSE Commons project through the newly created RYSE Commons, Inc. nonprofit. The project at 3939 Bissell Avenue in Richmond, California encompasses a renovation of the 45,000 square foot property by creating one cohesive campus to meet all of the needs of their target population for a better community and opportunities for its youth.

The NMTC program, enacted by Congress and administered by the U.S. Department of the Treasury, was created to promote economic development in distressed areas. Through the NMTC Program, the CDFI Fund allocates tax credit authority to Community Development Entities (CDEs) through a competitive application process. CDEs are financial intermediaries through which investment capital flows from an investor to a qualified business located in a low-income community. CDEs use their authority to offer tax credits to investors in exchange for equity in the CDE. With these capital investments, CDEs can make loans and investments to businesses operating in distressed areas that have better rates and terms and more flexible features than the market. The NMTC Program helps to offset the perceived or real risk of investing in distressed and low-income communities. In exchange for investing in CDEs, investors claim a tax credit worth 39 percent of their original CDE equity stake, which is claimed over a seven-year period. In addition to receiving a tax benefit, investors have the advantage of entering new, unsaturated markets before their

RYSE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE G – NEW MARKET TAX CREDIT PROJECT (Continued)

competitors, thereby increasing their chances of success. The NMTC Program enables investors to gain recognition for supporting the revitalization of America’s communities.

The financing structure requires RYSE to divest its interest in the project for a minimum period of seven years. RYSE achieved this through the sale of the property to RYSE Commons, Inc. (RC). The structure also requires RYSE to serve several key capacities as the leverage lender, developer, ground lessor, and master tenant.

There is a ground lease in place for the period June 26, 2019 through December 31, 2048, whereby RYSE can use the RC property in performing their functions as an organization. The payments are to begin in 2021. The effects of the commitment are not disclosed in the accompanying footnotes as the amounts will be eliminated upon consolidation.

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. The Organization is required to be in compliance with 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 the Organization 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. The Organization does not anticipate any credit recapture will be required in connection with this financing arrangement.

NOTE H – NMTC NOTES PAYABLE

In June 2019, RYSE Commons, Inc. obtained financing in an arrangement structured under the NMTC program. These loans made to RYSE Commons, Inc. by the CDEs on June 26, 2019, and outstanding at June 30, 2019, are as follows:

LCD New Markets Fund XXIX, LLC Note A	\$7,816,665
LCD New Markets Fund XXIX, LLC Note B	3,271,335
Total Note payable	<u>\$ 11,088,000</u>

All loans have a maturity date of June 2054. The applicable interest rates are 1.1674 percent simple interest. Semi-annual interest payments will commence December 2019.

The first seven years of the notes are defined as the Compliance Period. Only interest is paid during the Compliance Period. Thereafter, the loans are amortized with principal and interest payments required through the maturity date in Fiscal Year 2054. The loans can be repaid any time after the Compliance Period.

RYSE, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2019

NOTE H – NMTC NOTES PAYABLE (Continued)

There are put and call agreements between RYSE and the investor in the QEI funds (which has ownership interest in the CDEs making the loans above). If the investor does not exercise their put option, RYSE has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investor will put their option and RYSE will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. By acquiring the ownership interests, RYSE would be in a position whereby it can forgive the NMTC notes payable, resulting in a substantial reduction in outstanding debt at that point in time and recognition of the benefits from the NMTC program (in turn, it is expected that RYSE would forgive the NMTC notes receivable). The loans are collateralized by essentially all RYSE property and equipment.

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

Activity for net assets with donor restrictions for the year ended June 30 is comprised of the following and reflects releases that are reflected in net assets without donor restrictions in the statement of activities:

<u>Nature of Restriction</u>	<u>6/30/18</u>	<u>Awards</u>	<u>Releases</u>	<u>6/30/19</u>
<u>Time:</u>				
General operations	\$334,384	525,616	(97,362)	\$ 762,638
<u>Purpose:</u>				
Programming	358,072	823,719	(353,682)	828,109
RYSE Commons	467,762	1,667,238	(480,352)	1,654,648
Total	<u>\$1,160,218</u>	<u>\$3,016,573</u>	<u>(\$931,396)</u>	<u>\$3,245,395</u>

NOTE J – COMMITMENTS

RYSE leases office equipment with leasing running through May 2021. Future commitments regarding these agreements are as follows:

<u>Year Ended June 30</u>	
2020	\$ 5,436
2021	\$ 4,983

NOTE K – CONTINGENCIES

Grant awards require the fulfillment of certain conditions as set forth in the instruments of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. RYSE deems this contingency remote since by accepting the grants it is compelled to adjust its objectives and policies to accommodate the terms of the grants. Management is of the opinion that RYSE has complied with the terms of all grants.

RYSE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE L – LINE OF CREDIT

RYSE has a line of credit from a bank with a maximum available amount of \$100,000. The line renews annually in February with a variable interest rate of 6.75% over the Bank's Prime Rate. The outstanding balance on the line at June 30, 2019 is \$0.

NOTE M – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$ 1,309,553
Grants and contracts receivable	1,424,974
Total financial assets	<u>2,734,527</u>
Less:	
Net assets with purpose restrictions to be met in one year	<u>(2,593,204)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 141,323</u></u>

As part of RYSE's liquidity management, RYSE has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, RYSE invests cash in excess of daily requirements, if available, in short-term investments.

NOTE N – CONCENTRATION OF CREDIT RISK

At June 30, 2019, RYSE had deposits of approximately \$10,349,000 in banks exceeding federally insured limits. These amounts have not been reduced by items recorded in the accounts not yet clearing the bank.

At June 30, 2019, concentrations exist in accounts receivable as 55% of receivables, respectively are due from 3 funders (13%, 16%, and 26%). Additionally, 34% of the total revenue and support for the year ended June 30, 2019, was contributed by one funder. The loss of this level of support could have an effect on RYSE's ability to continue operations in their current manner.

RYSE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE O – EMPLOYEE BENEFITS

In 2019, RYSE adopted a 403(b) deferred compensation plan for its employees with up to 3% matching and a 20% per year vesting period beginning year two with full vesting after year 6 of employment. Total employer match expense for the years ended June 30, 2019 was \$13,854.

RYSE accrues vacation expense for staff members. Total accrued vacation payable liability at June 30, 2019 is \$78,938 and is reflected in the accounts payable and accrued liabilities in the accompanying statement of financial position.

NOTE P – SUBSEQUENT EVENTS

RYSE has evaluated subsequent events through February 28, 2020, which is the date these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2019, have been incorporated into these consolidated financial statements herein.

SUPPLEMENTAL SCHEDULES

RYSE, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

	RYSE, Inc.	RYSE Commons, Inc.	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,309,553	\$ -	\$ -	\$ 1,309,553
Grants, contracts, and accounts receivable	1,424,974	-	-	1,424,974
Prepaid expenses	18,823	-	-	18,823
Cash - restricted for construction disbursements	-	9,209,396	-	9,209,396
TOTAL CURRENT ASSETS	2,753,350	9,209,396	-	11,962,746
FIXED ASSETS, net	821,916	2,539,616	*(1,150,000)	2,211,532
OTHER ASSETS				
Cash - restricted for CDE reserve	-	488,988	-	488,988
Leveraged loan receivable	7,816,665	-	-	7,816,665
TOTAL OTHER ASSETS	7,816,665	488,988	-	8,305,653
TOTAL ASSETS	\$11,391,931	\$ 12,238,000	\$(1,150,000)	\$22,479,931
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 179,599	\$ -	\$ -	\$ 179,599
Note payable, current portion	500,000	-	-	500,000
TOTAL CURRENT LIABILITIES	679,599	-	-	679,599
Note payable, long-term portion, net of debt issuance costs	4,904,255	-	-	4,904,255
NMTC notes payable	-	11,088,000	-	11,088,000
TOTAL LIABILITIES	5,583,854	11,088,000	-	16,671,854
COMMITMENTS AND CONTINGENCIES				
NET ASSETS				
Without donor restrictions	2,562,682	1,150,000	*(1,150,000)	2,562,682
With donor restrictions	3,245,395	-	-	3,245,395
TOTAL NET ASSETS	5,808,077	1,150,000	(1,150,000)	5,808,077
TOTAL LIABILITIES AND NET ASSETS	\$11,391,931	\$ 12,238,000	\$(1,150,000)	\$22,479,931

* Elimination of write-up of fair value of land sold in transaction that was not "arms-length" of \$1,150,000.

RYSE, INC.**CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	RYSE, Inc.	RYSE Commons, Inc.	Eliminations	Consolidated Total
REVENUE AND SUPPORT				
Foundation grants and contributions	\$4,267,869	\$ -	\$ -	\$ 4,267,869
Government contracts	1,160,840	-	-	1,160,840
Program service fees	42,187	-	-	42,187
Interest and earnings	999	-	-	999
Donation of property	425,000	-	-	425,000
Events	42,405	-	-	42,405
In-kind income	25,435	-	-	25,435
Other	114,486	1,150,000 *	(1,150,000)	114,486
TOTAL REVENUE AND SUPPORT	6,079,221	1,150,000	(1,150,000)	6,079,221
EXPENSES:				
Program	2,316,299	-	-	2,316,299
General and administrative	591,738	-	-	591,738
Fundraising	166,951	-	-	166,951
TOTAL EXPENSES	3,074,988	-	-	3,074,988
CHANGE IN NET ASSETS	3,004,233	1,150,000	(1,150,000)	3,004,233
NET ASSETS, beginning of year	2,803,844	-	-	2,803,844
NET ASSETS, end of year	\$5,808,077	\$ 1,150,000	\$(1,150,000)	\$ 5,808,077

* Elimination of write-up of fair value of land sold in transaction that was not "arms-length" of \$1,150,000.