

DRAPER RICHARDS KAPLAN  
FOUNDATION

DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# **Draper Richards Kaplan Foundation**

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

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## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
DRAPER RICHARDS KAPLAN FOUNDATION  
Menlo Park, California

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

We have audited the accompanying financial statements of **DRAPER RICHARDS KAPLAN FOUNDATION (the Foundation)** which comprise the statement of financial position as of December 31, 2015 and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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 financial statements referred to above present fairly, in all material respects, the financial position of the Draper Richards Kaplan Foundation as of December 31, 2015, 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.

### **Report on Summarized Comparative Information**

We have previously audited the Foundation's 2014 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 3, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financials from which it has been derived.

*Hood & Strong LLP*

San Jose, California  
May 31, 2016

# Draper Richards Kaplan Foundation

## Statement of Financial Position

December 31, 2015 (with comparative totals  
as of December 31, 2014)

	2015	2014
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,742,985	\$ 3,652,728
Investments	28,177,084	22,088,093
Contributions receivable, current	6,617,000	4,000,000
Prepaid expenses and other current assets	84,902	46,903
<b>Total current assets</b>	<b>36,621,971</b>	<b>29,787,724</b>
<b>Contributions Receivable</b> , net of current portion	17,319,190	11,491,787
<b>Property and Equipment</b> , net	66,763	47,600
<b>Deposits</b>	44,591	44,291
<b>Total assets</b>	<b>\$ 54,052,515</b>	<b>\$ 41,371,402</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 385,945	\$ 241,232
Grants payable	250,000	200,000
<b>Total current liabilities</b>	<b>635,945</b>	<b>441,232</b>
<b>Net Assets:</b>		
Unrestricted	29,480,380	25,438,383
Temporarily restricted	23,936,190	15,491,787
<b>Total net assets</b>	<b>53,416,570</b>	<b>40,930,170</b>
<b>Total liabilities and net assets</b>	<b>\$ 54,052,515</b>	<b>\$ 41,371,402</b>

See accompanying notes to financial statements.

# Draper Richards Kaplan Foundation

## Statement of Activities and Changes in Net Assets

Year Ended December 31, 2015 (with comparative totals for the year ended December 31, 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
<b>Revenue and Support:</b>				
Contributions	\$ 8,077,303	\$ 12,186,330	\$ 20,263,633	\$ 19,269,236
Realized investment gains	1,791		1,791	4,177
Unrealized investment (losses) gains	(283,496)		(283,496)	250,654
Interest and dividends	337,770		337,770	157,669
Net assets released from restrictions	3,741,927	(3,741,927)		
<b>Total revenue and support</b>	<b>11,875,295</b>	<b>8,444,403</b>	<b>20,319,698</b>	<b>19,681,736</b>
<b>Expenses:</b>				
Direct grants to nonprofit organizations	3,550,000		3,550,000	2,825,000
Other program expense	3,284,180		3,284,180	2,427,154
General and administrative	472,609		472,609	376,438
Fundraising	526,509		526,509	519,181
<b>Total expenses</b>	<b>7,833,298</b>		<b>7,833,298</b>	<b>6,147,773</b>
<b>Change in Net Assets</b>	<b>4,041,997</b>	<b>8,444,403</b>	<b>12,486,400</b>	<b>13,533,963</b>
<b>Net Assets, beginning of year</b>	<b>25,438,383</b>	<b>15,491,787</b>	<b>40,930,170</b>	<b>27,396,207</b>
<b>Net Assets, end of year</b>	<b>\$ 29,480,380</b>	<b>\$ 23,936,190</b>	<b>\$ 53,416,570</b>	<b>\$ 40,930,170</b>

See accompanying notes to financial statements.

# Draper Richards Kaplan Foundation

## Statement of Cash Flows

*Year Ended December 31, 2015 (with comparative totals  
for the year ended December 31, 2014)*

	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 12,486,400	\$ 13,533,963
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,522	20,350
Realized gain on investments	(1,791)	(4,177)
Unrealized loss (gain) on investments	283,496	(250,654)
Change in operating assets and liabilities:		
Contributions receivable	(8,444,403)	(11,908,119)
Prepaid expenses	(37,999)	(23,115)
Deposits	(300)	
Accounts payable and accrued liabilities	144,713	5,883
Grants payable	50,000	(100,000)
<b>Net cash provided by operating activities</b>	<b>4,501,638</b>	<b>1,274,131</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(40,685)	(7,312)
Proceeds from sale or redemption of investments	13,543,373	16,792,979
Purchase of investments	(19,914,069)	(18,838,789)
<b>Net cash used for investing activities</b>	<b>(6,411,381)</b>	<b>(2,053,122)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(1,909,743)</b>	<b>(778,991)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>3,652,728</b>	<b>4,431,719</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 1,742,985</b>	<b>\$ 3,652,728</b>

### Supplemental Disclosures:

Excise taxes paid	\$ 32,500	\$ 28,000
There was no amount paid for interest in 2015 or 2014.		

See accompanying notes to financial statements.

# Draper Richards Kaplan Foundation

## Notes to Financial Statements

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### Note 1 - Organization:

Established in 2002, the Draper Richards Kaplan Foundation (DRK) is a private operating foundation based in Menlo Park, California. The primary purpose of DRK is to encourage and support the development of new charitable organizations that can help solve some of society's most complex problems. DRK carefully vets exceptional social entrepreneurs who have the capability to lead and scale their organizations in response to these challenges. DRK provides unrestricted grants over a three-year period aggregating \$300,000. As part of the support, each DRK portfolio organization receives substantial resources, including board service for the duration of the grant cycle by a senior member of the DRK team as well as advice and training on strategic planning, board development, fundraising, organizational development and leadership. In addition, DRK provides portfolio organizations with access to DRK's networks and consultants with expertise and specialized skills to help these organizations grow. DRK provides each of these organizations with leadership development opportunities during the grant period including an annual 3-day retreat designed to help each organization achieve its objectives. Together, with each organization's leadership, DRK develops strategic goals for the nonprofit organization that can be measured on a yearly basis and over the grant cycle.

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

#### a. Basis of Accounting

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

#### b. Description of Net Assets

DRK reports its financial position and operating activities in three classes of net assets:

*Unrestricted Net Assets* – those assets not subject to donor imposed restrictions and over which the Board of Directors has discretionary control in carrying out the operations of DRK.

*Temporarily Restricted Net Assets* – those assets which are subject to a donor imposed restriction and for which the applicable timing or purpose restriction was not met as of the end of the current reporting period.

*Permanently Restricted Net Assets* – those assets which are subject to a non-expiring donor imposed restriction, such as an endowment. At December 31, 2015 there were no permanently restricted net assets.



# Draper Richards Kaplan Foundation

## Notes to Financial Statements

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c. Contributions

Contributions are recognized at their fair value when the donor makes an unconditional promise to give.

DRK evaluates the need for an allowance for doubtful contributions receivable on a specific identification method.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities and changes in net assets as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases to unrestricted net assets, if the restrictions are met in the fiscal year in which the contributions are recognized.

d. Property and Equipment

Property and equipment purchased by DRK is recorded at cost or, if donated, at the approximate fair value at the date of donation. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets.

e. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash, savings and deposits that have a maturity period of three months or less.

f. Investments

Investments are stated at their fair value based on quoted market prices, except for investments held by certain investment funds, which are stated at the fund's net asset value of DRK's ownership interest and which approximates fair value. Investments received by donation are recorded at their fair market value on the date received. Realized and unrealized gains or losses are included in the statement of activities and changes in net assets.

# Draper Richards Kaplan Foundation

## Notes to Financial Statements

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g. Fair Value Measurements

DRK classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect DRK's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

h. Grants

Grants awarded with an unconditional promise to give are accrued as a liability and expensed when approved. Typically, the first grant payment is considered unconditional and subsequent payments are considered conditional upon the grantee meeting certain milestones.

i. Income Taxes

DRK is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and related California statutes. DRK is classified as a private operating foundation and is subject to excise tax on its net investment income. DRK accrues for the excise tax on a current basis. Deferred taxes on net unrealized gains are recorded when material.

Management evaluated DRK's tax positions and concluded that DRK had maintained its tax exempt status and had not taken uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

j. Expense Allocations

Expenses are allocated between general and administrative, fundraising and other program expenses based upon estimates by management.

# Draper Richards Kaplan Foundation

## Notes to Financial Statements

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k. Use of Estimates

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

l. Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not in sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

m. Subsequent Events

DRK evaluated subsequent events from December 31, 2015 through May 31, 2016, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**Note 3 - Investments:**

Investments consist of the following at December 31, 2015:

Corporate fixed income	\$ 19,255,708
Treasury securities	4,416,729
Municipal bonds	1,151,429
Absolute return fund (a)	2,116,607
Private equity fund (b)	1,062,397
Other investments	174,214
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Total	\$ 28,177,084

(a) Investment in a limited partnership. Redemptions are permitted annually on December 31, if requested by September 15.

(b) Investment in a LLC with a strategy of long-term investment returns which the members are encouraged to contribute to charities of their choice. Redemptions are not permitted. There is \$30,000 remaining of unfunded committed capital. The fund is expected to operate until 2018, unless terminated or otherwise amended.

# Draper Richards Kaplan Foundation

## Notes to Financial Statements

Composition of investments utilizing fair value measurements at December 31, 2015 is as follows:

	Level 1	Level 2	Totals
Corporate fixed income		\$ 19,255,708	\$ 19,255,708
Treasury securities		4,416,729	4,416,729
Municipal bonds		1,151,429	1,151,429
Other investments	\$ 76,851		76,851
	<u>\$ 76,851</u>	<u>\$ 24,823,866</u>	24,900,717
Investments valued using NAV			<u>3,276,367</u>
Totals			<u>\$ 28,177,084</u>

### Note 4 - Contributions Receivable:

Contributions receivable at December 31, 2015 consist of the following:

Receivable in less than one year	\$ 6,617,000
Receivable in one to five years	18,016,000
	<u>24,633,000</u>
Less discounts to net present value	(696,810)
Total contributions receivable	<u>\$ 23,936,190</u>

Contributions receivable due in more than one year are reflected at the value of estimated future cash flows using a discount rate ranging from 1.06% to 1.64%.

Additionally, DRK has received verbal commitments from certain donors as well as other commitments considered conditional. As of December 31, 2015 these pledges totaled \$4,850,000. These pledges are not reflected in DRK's financial statements until collected.

# Draper Richards Kaplan Foundation

## Notes to Financial Statements

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### Note 5 - Property and Equipment:

Property and equipment is as follows at December 31, 2015:

Furniture and fixtures	\$ 38,468
Equipment	44,816
Leasehold improvements	42,517
	<hr/>
	125,801
Accumulated depreciation	(59,038)
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Total property and equipment	\$ 66,763

Depreciation expense for the year ended December 31, 2015 amounted to \$21,522.

### Note 6 - Excise Taxes:

In accordance with applicable Treasury regulations, DRK is classified as a private operating foundation subject to an excise tax of two percent on net investment income, including realized gains. DRK is eligible to reduce its tax liability from two percent to one percent of net investment income if a certain level of distributions, calculated as defined in the Treasury regulations, is attained. Regulations require DRK, as a private operating foundation, to maintain minimum expenditures and assets for direct charitable activities. DRK is in compliance with the regulations.

### Note 7 - Grants to Nonprofit Organizations:

During the year ended December 31, 2015, DRK funded or accrued grant payments to the following organizations or their fiscal sponsor:

Accountability Counsel	\$ 100,000
Advance Peace (Fiscal sponsor: Safe Passages)	50,000
Adventurers & Scientists for Conservation	100,000
Braven (formerly Beyond Z)	50,000
CareMessage	100,000
CAST- Community Arts Stabilization Trust	50,000
Catie's Closet	50,000
City Health Works	100,000
Clean Energy Trust	100,000
Compass Working Capital	100,000
Crisis Text Line	100,000

# Draper Richards Kaplan Foundation

## Notes to Financial Statements

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D-Rev	100,000
EdBuild	50,000
EducationSuperhighway	50,000
Empowerment Plan	50,000
Generation Citizen Inc.	50,000
iCivics	100,000
IDEO.org	50,000
Immigrant Justice Corps	50,000
Justice Rapid Response	50,000
Last Mile Health	100,000
Lava Mae (Fiscal sponsor: The Tides Center)	100,000
Matchbook Learning	50,000
Measures for Justice	100,000
Muso	50,000
myAgro	100,000
Nest	50,000
New Story	50,000
OpenBiome	50,000
Power of Two (Fiscal sponsor: Fund for the City of New York)	50,000
Sanergy	50,000
Seed Global Health	100,000
SIRUM	100,000
Spark MicroGrants	50,000
STIR Education (Fiscal sponsor: Absolute Return for Kids US)	100,000
Strive Together	50,000
StrongMinds	50,000
The Earth Genome	50,000
The Future Project	100,000
The Reset Foundation	100,000
Think Unlimited	50,000
Transcend	50,000
Upstream (Fiscal sponsor: New Venture Fund)	100,000
Watsi	100,000
WAVE (Fiscal sponsor: Azariah Foundation)	150,000
Wishbone	100,000
Y2Y (Fiscal sponsor: Phillips Brooks House Association, Inc.)	100,000
<b>Total Grants</b>	<b>\$ 3,550,000</b>

# Draper Richards Kaplan Foundation

## Notes to Financial Statements

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DRK's grant agreements contain conditions that if met by the grantee would commit DRK to future grant payments. These amounts have not been recognized in DRK's financial statements.

2016	\$ 3,350,000
2017	2,250,000
2018	700,000
<hr/>	
Total	\$ 6,300,000

### Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets as of December 31, 2015 are comprised of contributions receivable. The restrictions thereon will expire by passage of time as payments are received.

Net assets were released from restriction during the year ended December 31, 2015 in the amount of \$3,741,927 representing payments received on the contributions receivable.

### Note 9 - Commitments:

#### Office Lease - Menlo Park

DRK leases its headquarters office in Menlo Park under an eight-year lease expiring December 31, 2019. As of December 31, 2015, the lease requires a rental payment of \$14,300 per month plus other operating expenses such as utilities and property taxes.

#### Office Lease - Boston

DRK leases office space in Boston under a five-year lease beginning March 1, 2013 and continuing through February 28, 2018. As of December 31, 2015, the lease requires a rental payment of \$7,999 per month plus other operating expenses such as utilities and property taxes.

For the year ended December 31, 2015 rent expense was \$333,940.

Future minimum rental payments under the office leases are as follows:

2016	\$ 269,174
2017	315,103
2018	240,792
2019	233,106
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Total	\$ 1,058,175

# Draper Richards Kaplan Foundation

## Notes to Financial Statements

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### **Note 10 - Retirement Plan:**

DRK offers eligible employees the opportunity to participate in a 401(k) plan. Employees who have reached the age of 21 years and have at least six months of service are eligible to participate in the plan. After one year of service, DRK may elect to contribute a percentage of each employee's eligible compensation on an annual basis. Employer contributions for the year ended December 31, 2015 amounted to \$263,155.

### **Note 11 - Related Party Transactions:**

DRK has historically been funded by individuals closely associated with the foundation, including certain members of the Board of Directors and individuals related to them. During the year ended December 31, 2015, included in contributions were gifts from related parties that amounted to \$85,417. Included in contributions receivable were amounts due from related parties that amounted to \$7,600,000.

### **Note 12 - Concentrations of Credit Risk:**

Financial instruments, which potentially subject DRK to concentrations of credit risk, consist of cash and contributions receivable. Cash balances may, from time to time, exceed Federal Deposit Insurance Corporation insurable limits. DRK has not experienced any losses in such accounts. Contributions receivable are due from various donors. Management evaluates the need for an allowance.