DRAPER RICHARDS KAPLAN FOUNDATION

DECEMBER 31, 2017

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Draper Richards Kaplan Foundation

Independent Auditors' Report and
Financial Statements

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 (DRK)** which comprise the statement of financial position as of December 31, 2017 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 auditors' 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.

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, 2017, 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 DRK's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Jose, California
June 18, 2018

Draper Richards Kaplan Foundation

Statement of Financial Position

December 31, 2017 (with comparative totals for 2016)	2017	2016
Assets		
Cash and cash equivalents	$ 1,389,798	$ 1,527,948
Investments	26,914,584	28,904,478
Contributions receivable, net	13,465,207	17,580,266
Program-related investments	747,363	247,363
Property and equipment, net	116,033	127,747
Other assets	185,925	240,712
Total assets	$ 42,818,910	$ 48,628,514
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 570,215	$ 514,012
Grants payable	100,000	100,000
Total liabilities	670,215	614,012
Net Assets:		
Unrestricted	28,683,488	30,434,236
Temporarily restricted	13,465,207	17,580,266
Total net assets	42,148,695	48,014,502
Total liabilities and net assets	$ 42,818,910	$ 48,628,514

See accompanying notes to financial statements.

Draper Richards Kaplan Foundation

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017 (with comparative totals for 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and Support:				
Contributions	$ 3,487,500	$ 1,474,238	$ 4,961,738	$ 3,790,903
Net investment return	520,944		520,944	729,261
Net assets released from restrictions	5,589,297	(5,589,297)		
Total revenue and support	9,597,741	(4,115,059)	5,482,682	4,520,164
Expenses:				
Direct grants to beneficiary organizations	4,950,000		4,950,000	4,250,000
Direct program support	5,054,103		5,054,103	4,510,476
General and administrative	663,379		663,379	567,219
Fundraising	681,007		681,007	594,537
Total expenses	11,348,489		11,348,489	9,922,232
Change in Net Assets	(1,750,748)	(4,115,059)	(5,865,807)	(5,402,068)
Net Assets, beginning of year	30,434,236	17,580,266	48,014,502	53,416,570
Net Assets, end of year	$ 28,683,488	$ 13,465,207	$ 42,148,695	$ 48,014,502

See accompanying notes to financial statements.

Draper Richards Kaplan Foundation

Statement of Cash Flows

Year Ended December 31, 2017 (with comparative totals for 2016)	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	$ (5,865,807)	$ (5,402,068)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	40,752	19,708
Realized (gains) losses on investments	(118,048)	13,288
Unrealized losses (gains) on investments	317,909	(33,530)
Change in operating assets and liabilities:		
Contributions receivable	4,115,059	6,355,924
Other assets	54,787	(111,219)
Accounts payable and accrued liabilities	56,203	128,067
Grants payable	-	(150,000)
Net cash (used) provided by operating activities	(1,399,145)	820,170
Cash Flows from Investing Activities:		
Purchases of property and equipment	(29,038)	(80,692)
Proceeds from sale or redemption of investments	13,983,266	25,773,955
Purchases of investments	(12,193,233)	(26,578,470)
Purchases of program-related investments	(500,000)	(150,000)
Net cash provided (used) by investing activities	1,260,995	(1,035,207)
Net Change in Cash and Cash Equivalents	(138,150)	(215,037)
Cash and Cash Equivalents, beginning of year	1,527,948	1,742,985
Cash and Cash Equivalents, end of year	$ 1,389,798	$ 1,527,948
Supplemental Disclosures:		
Note payable converted to preferred stock	$ -	$ 150,000
Excise taxes paid	$ 9,161	$ 53,000
There was no amount paid for interest in 2017 or 2016.		

See accompanying notes to financial statements.

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 typically provides funding 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. Between inception and December 31, 2017, DRK has funded and supported 127 social impact organizations around the world.

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, 2017, there were no permanently restricted net assets.

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 checking, savings and deposit accounts 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.

g. Program-Related Investments

Program-related investments (PRIs) are strategic funding for the specific objective of furthering DRK's charitable purpose and may be in the form of an equity investment, loan or convertible note. Equity investments are carried at cost. Debt investments are also carried at cost, unless it is determined that a discount is material to DRK's financial statements. PRIs are evaluated annually for impairment.

h. 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.

DRK reports alternative investments using Net Asset Value (NAV) per share as determined by the respective fund managers. This practical expedient allows NAV to represent fair value for reporting purposes when the criteria for using this method are met.

i. 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. DRK complies with expenditure responsibility requirements for any awards to grantees that are not classified as public charities under Section 501(c)(3) of the Internal Revenue Code.

j. 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.

k. Expense Allocations

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

l. 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.

m. 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 DRK's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

n. Recent Accounting Pronouncements

In February 2016, Financial Accounting Standards (FASB) issued ASU 2016-02—*Leases (Topic 842).* Under the ASU, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months for the rights and obligations created by those leases. The ASU is effective for fiscal years beginning after December 15, 2019. Early application will be permitted for all organizations. DRK is currently assessing the impact the adoption this ASU will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities.* This ASU is designed to improve the current net asset classification requirements and the information presented in the financial statements about a not-for-profit entity's liquidity and financial performance. The amendments in the ASU are effective for DRK's year beginning January 1, 2018. Early application of the ASU is permitted. DRK is currently evaluating the impact of this pronouncement on its financial statements.

o. Subsequent Events

DRK evaluated subsequent events from December 31, 2017 through June 18, 2018, the date these financial statements were available to be issued. Except as mentioned in Notes 7 and 11, 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, 2017:

Corporate fixed income (Level 2)	$ 24,795,688
Treasury securities (Level 2)	614,265
Municipal bonds (Level 2)	198,607
Private equity fund (a)	984,662
Cash equivalents held for investment purposes	321,362
Total	$ 26,914,584

(a) Investment in a limited liability company at net asset value with a strategy of long-term investment returns which the members are encouraged to contribute to charities of their choice. There is $20,000 remaining of unfunded committed capital.

Note 4 - Program-Related Investments:

Program-related investments at December 31, 2017 consist of two equity investments, two convertible promissory notes and a simple agreement for future equity. One of the equity investments is in a for-profit subsidiary of one of DRK's grantees. The investment was made in lieu of scheduled grant payments and is carried at its cost basis of $97,363. The other equity investment began as a convertible promissory note that was converted to preferred stock on December 28, 2016 and is carried at its cost basis of $150,000. During 2017, DRK invested in two convertible promissory notes, one for $150,000 and another for $200,000, both at 8% simple interest per annum and one simple agreement for future equity for $150,000. DRK makes program-related investments in each of these companies to further DRK's mission.

Note 5 - Contributions Receivable:

Contributions receivable at December 31, 2017 consist of the following:

Receivable in less than one year	$ 7,409,833
Receivable in one to five years	6,257,000
	13,666,833
Less discounts to net present value	(201,626)
Total contributions receivable	$ 13,465,207

Contributions receivable due in more than one year are reflected at the value of estimated future cash flows using a discount rate ranging from 1.20% to 2.20%.

Additionally, DRK has received verbal commitments from certain donors as well as other commitments considered conditional. As of December 31, 2017, these pledges totaled $4,012,323. These pledges are not reflected in DRK's financial statements until collected or conditions have been met.

Note 6 - Property and Equipment:

Property and equipment is as follows at December 31, 2017:

Furniture and fixtures	$	58,052
Equipment		21,858
Leasehold improvements		42,517
Intangible assets		73,394
		195,821
Accumulated depreciation		(79,788)
Total property and equipment	$	116,033

Depreciation expense for the year ended December 31, 2017 amounted to $40,752.

Note 7 - Credit Agreement:

In December 2016, DRK entered into a credit agreement for a term loan in the amount of $500,000 for the use of working capital loans for DRK's portfolio organizations. Interest on the unpaid principal amount of the loan is 1% per annum, simple interest payable semi-annually. The term loan matures three years from the date of the initial advance of funds. As of December 31, 2017, DRK had not borrowed against the loan. In February 2018, DRK opted to terminate this agreement.

Note 8 - Excise Taxes:

In accordance with applicable U. S. Treasury regulations, DRK is classified as a private operating foundation subject to an excise tax of 2% on net investment income, including realized gains. DRK is eligible to reduce its tax liability from 2% to 1% of net investment income if a certain level of charitable distributions 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 9 - Grants to Beneficiary Organizations:

During the year ended December 31, 2017, DRK funded or accrued grant payments to the following organizations or their fiscal sponsor:

12 for Life (Juma Ventures)	$	50,000
Accountability Counsel		100,000
Advance Peace (Fiscal sponsor: Safe Passages)		100,000
Adventurers & Scientists for Conservation		100,000
Barefoot Law		50,000
Braven (formerly Beyond Z)		100,000
CAST- Community Arts Stabilization Trust		100,000
Catie's Closet		100,000
Center for Good Food Purchasing (Fiscal sponsor: Community Partners)		100,000
City Health Works		50,000
Clean Energy Trust		50,000
Common Market		100,000
Crisis Text Line		50,000
D-Rev		50,000
EdBuild		100,000
Education Opens Doors		100,000
EforAll		100,000
Empower Schools		100,000
Empowerment Plan		50,000
Essie Justice Group		100,000
EYElliance (Fiscal sponsor: The Tides Center)		100,000
Food Forward		100,000
Foster America (Fiscal sponsor: The Center for the Study of Social Policy)		100,000
GlobalXplorer		50,000
GreenWave		50,000
Heal Initiative (UCSF)		50,000
IDEO.org		50,000
Immigrant Justice Corps		100,000
Indus Action		150,000
International Refugee Assistance Program (Fiscal sponsor: Urban Justice Center)		100,000
Justice Rapid Response		100,000
Laboratoria		100,000
Landed		50,000
Lava Mae		50,000
Muso		50,000
Nest		50,000
New Story		100,000
Noora Health		100,000

Open Door Legal	50,000
Open Up Resources (formerly K-12 OER Collaborative)	100,000
Pollinate Energy	150,000
Power of Two (Fiscal sponsor: Fund for the City of New York)	100,000
Rainforest Connection	100,000
ROX	100,000
SaveLife Foundation USA	50,000
Service Year	100,000
Simprints	100,000
Solutions Journalism Network	100,000
Spark MicroGrants	50,000
Strive Together	50,000
StrongMinds	100,000
The Earth Genome	100,000
The GroundTruth Project	100,000
The Nudge Foundation	100,000
The Reset Foundation	100,000
Transcend Education	100,000
Upstream	50,000
Vote.org	50,000
Y2Y (Fiscal sponsor: Phillips Brooks House Association, Inc.)	100,000
Total Grants	$ 4,950,000

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. The anticipated payment schedule is as follows:

2018	$ 3,500,000
2019	1,800,000
2020	350,000
Total	$ 5,650,000

Note 10 - Temporarily Restricted Net Assets:

Temporarily restricted net assets as of December 31, 2017 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, 2017 in the amount of $5,589,297 representing payments received on the contributions receivable.

Note 11 - Commitments:

Office Lease - Menlo Park

DRK leases its headquarters office in Menlo Park, California under an eight-year lease expiring December 31, 2019. As of December 31, 2017, the lease requires a rental payment of $18,680 per month plus other operating expenses such as utilities and property taxes.

Office Lease - San Francisco

Beginning July 2016, DRK entered into a month to month sub-lease in San Francisco, California with a 90-day advance notice for termination of the agreement. The lease requires rental payments of $4,000 per month. As of April 1, 2018, this lease was terminated and DRK entered into a new month to month lease in San Francisco, California with a one calendar month advance notice of termination. The new lease requires rental payments of $4,800 per month.

Office Lease - Boston

DRK leases office space in Boston, Massachusetts under a five-year lease beginning March 1, 2013, amended on June 6, 2017 and continuing through February 28, 2023. As of December 31, 2017, the lease requires a rental payment of $11,935 per month plus other operating expenses such as utilities and property taxes. Additionally, in September 2017, DRK entered into a 24-month sublease agreement with a subtenant for a portion of the Boston office with rental payments of $2,000 per month.

For the year ended December 31, 2017 rent expense was $405,508.

Future minimum rental payments, net of sublease receipts, under the office leases are as follows:

2018	$ 319,491
2019	360,496
2020	147,994
2021	150,598
2022	153,202
Thereafter	25,606
Total	$ 1,157,387

Note 12 - Retirement Plan:

DRK offers eligible employees the opportunity to participate in a 401(k) plan. Employees who have reached the age of 21 years are eligible to participate in the plan. At the end of the calendar year, DRK may elect to contribute a percentage of each active employee's eligible compensation on an annual basis. Employer contribution expense for the year ended December 31, 2017 amounted to $437,456.

Note 13 - Related Party Transactions:

DRK has historically been funded by individuals closely associated with DRK, including certain members of the Board of Directors and individuals related to them. During the year ended December 31, 2017, gifts from related parties included in contributions amounted to $300,000. Included in contributions receivable were amounts due from related parties that amounted to $4,581,797.

Note 14 - 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 on an annual basis and has determined that no such allowance is necessary at this time.