DRAPER RICHARDS KAPLAN FOUNDATION

DECEMBER 31, 2013

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Draper Richards Kaplan Foundation

Independent Auditors' Report and
Financial Statements

HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Consultants and Business Advisors

100 First Street
14th Floor
San Francisco
CA 94105
415.781.0793
fax 415.421.2976

60 South Market Street
Suite 200
San Jose
CA 95113
408.998.8400
fax 408.998.8485

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, 2013 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.

CELEBRATING 90 YEARS AND STILL COUNTING

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, 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Jose, California
September 12, 2014

Draper Richards Kaplan Foundation

Statement of Financial Position

December 31, 2013		
Assets		
Current Assets:		
Cash and cash equivalents	$	4,431,719
Investments		19,787,452
Contributions receivable, current		2,783,668
Prepaid expenses		23,788
Total current assets		27,026,627
Contributions receivable, net of current portion		800,000
Property and Equipment, net		60,638
Deposits		44,291
Total assets	$	27,931,556
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	$	235,349
Grants payable		300,000
Total current liabilities		535,349
Net Assets:		
Unrestricted		23,812,539
Temporarily restricted		3,583,668
Total net assets		27,396,207
Total liabilities and net assets	$	27,931,556

The accompanying notes are an integral part of this statement.

Draper Richards Kaplan Foundation

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Contributions	$ 3,278,150		$ 3,278,150
Realized investment gains	444,350		444,350
Unrealized investment gains	402,825		402,825
Interest and dividends	91,458		91,458
Net assets released from restrictions	2,675,000	$ (2,675,000)	
Total revenue and support	6,891,783	(2,675,000)	4,216,783
Expenses:			
Direct grants to nonprofit organizations	2,475,000		2,475,000
Other program expense	1,784,621		1,784,621
General and administrative	368,470		368,470
Development	215,726		215,726
Total expenses	4,843,817		4,843,817
Change in Net Assets	2,047,966	(2,675,000)	(627,034)
Net Assets, beginning of year (restated)	21,764,573	6,258,668	28,023,241
Net Assets, end of year	$ 23,812,539	$ 3,583,668	$ 27,396,207

The accompanying notes are an integral part of this statement.

Draper Richards Kaplan Foundation

Statement of Cash Flows

Year Ended December 31, 2013	
Cash Flows from Operating Activities:	
Change in net assets	$ (627,034)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	22,535
Realized gain on investments	(444,350)
Unrealized gain on investments	(402,825)
Change in operating assets and liabilities:	
Contributions receivable	2,675,000
Prepaid expenses	(6,119)
Deposits	(30,691)
Accounts payable and accrued liabilities	71,587
Net cash provided by operating activities	1,258,103
Cash Flows from Investing Activities:	
Purchase of property and equipment	$ (49,126)
Proceeds from sale or redemption of investments	14,624,302
Purchase of investments	(22,757,807)
Net cash used for investing activities	(8,182,631)
Net Change in Cash and Cash Equivalents	(6,924,528)
Cash and Cash Equivalents, beginning of year	11,356,247
Cash and Cash Equivalents, end of year	$ 4,431,719

Supplemental Disclosures:	
Excise taxes paid	$ 10,407
There was no amount paid for interest in 2013.	

The accompanying notes are an integral part of this statement.

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 their 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 U.S. generally accepted accounting principles (US 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, 2013 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. 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.

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.

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 based on the fair market value of the underlying investments as determined by those funds. 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. 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 year of a grant award 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. DRK is generally no longer subject to income tax examination by the U.S. federal authorities for tax years prior to 2010 and state tax authorities for tax years prior to 2009.

j. Expense Allocations

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

k. Use of Estimates

The preparation of financial statements in conformity with US 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. Subsequent Events

DRK evaluated subsequent events through September 12, 2014, 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, 2013:

Cash	$ 16,502,137
Absolute return fund (a)	2,162,663
Private equity fund (b)	1,122,652
Total	$ 19,787,452

(a) Investment in a limited partnership, absolute return fund. 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 $70,000 remaining of unfunded committed capital. The fund is expected to operate until 2018, unless terminated or otherwise amended.

Composition of investments utilizing fair value measurements at December 31, 2013 is as follows:

	Totals	Level 1	Level 2	Level 3
Cash	$ 16,502,137	$ 16,502,137		
Absolute return fund	2,162,663			$ 2,162,663
Private equity fund	1,122,652			1,122,652
Totals	$ 19,787,452	$ 16,502,137		$ 3,285,315

The table below includes a roll forward of the investments classified within Level 3 of the valuation hierarchy:

	Absolute Return Fund	Private Equity Fund	Total
Balance, December 31, 2012	$ 1,897,499	$ 893,782	$ 2,791,281
Purchases		60,000	60,000
Distributions		(142,704)	(142,704)
Net realized and unrealized gains	280,542	317,574	598,116
Management fees	(15,378)	(6,000)	(21,378)
Balance, December 31, 2013	$ 2,162,663	$ 1,122,652	$ 3,285,315

On December 31, 2013, the investment portfolio was in transition. Mutual funds were sold in December 2013 and in January 2014, the portfolio's cash was mostly invested in fixed income securities.

Note 4 - Contributions Receivable:

Contributions receivable at December 31, 2013 are expected to be received as follows:

2014	$	2,783,668
2015		800,000
Total contributions receivable	$	3,583,668

No discount is recorded for contributions expected to be received after one year as the amount was determined to be immaterial.

Additionally, DRK has received verbal commitments from certain donors. As of December 31, 2013 these pledges totaled $2,525,000. These pledges are not reflected in DRK's financial statements until collected.

Note 5 - Property and Equipment:

Property and equipment is as follows at December 31, 2013:

Furniture and fixtures	$	38,727
Equipment		51,274
		90,001
Accumulated depreciation		(29,363)
Total property and equipment	$	60,638

Depreciation expense for the year ended December 31, 2013 amounted to $22,535.

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, 2013, DRK funded or accrued grant payments to the following organizations:

Avanti Fellows USA	$	50,000
Blue Engine		100,000
Compass Working Capital		100,000
Education Superhighway		50,000
Equal Opportunity Schools		50,000
FoodCorps		150,000
Generation Citizen Inc.		50,000
Global Health Service Corps		100,000
Green City Force		75,000
iCivics		100,000
Jacaranda Health		100,000
Matchbook Learning		50,000
Measures for Justice		100,000
MyAgro		100,000
Sanergy		50,000
Sirum		100,000
Solar Sister		100,000
STIR		100,000
Students for Education Reform		100,000
The Future Project		100,000
Think Unlimited		50,000
Tyetian Health		100,000
TurboVote		100,000
Watsi		100,000
WAVE		100,000
Welcoming America		100,000
Wishbone		100,000
Worldreader		100,000
Total Grants	$	2,475,000

DRK's grant agreements with the social entrepreneurs 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.

Anticipated future payments, as conditions are met, are as follows:

2014	$ 2,225,000
2015	1,700,000
2016	400,000
Total	$ 4,325,000

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets as of December 31, 2013 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, 2013 in the amount of $2,675,000 representing payments received on the contributions receivable.

Note 9 - Commitments:

Office Lease - Menlo Park

DRK leases its headquarters office in Menlo Park under a five-year lease expiring December 31, 2016. As of December 31, 2013, the lease requires a rental payment of $10,444 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 March 1, 2013, the lease requires a rental payment of $7,673 per month plus other operating expenses such as utilities and property taxes.

For the year ended December 31, 2013 rent expense was $235,461.

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

2014	$	223,000
2015		229,000
2016		235,000
2017		99,000
2018		17,000
Total	$	803,000

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, 2013 amounted to $174,095.

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, 2013, included in contributions were gifts from related parties that amounted to $1,402,734.

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.

Note 13 - Prior Period Adjustment:

Net assets have been restated as follows:

	Unrestricted Funds	Temporarily Restricted	Total
Net assets, as previously reported - January 1, 2013	$ 21,764,573		$ 21,764,573
Recognition of contributions receivable		$ 6,258,668	6,256,668
Net assets, as restated - January 1, 2013	$ 21,764,573	$ 6,258,668	$ 28,023,241

The restatement represents unconditional contributions receivable which were not previously recorded.

The impact to the statement of activities for 2012 was an increase in temporarily restricted net assets of $6,258,668.