DRAPER RICHARDS KAPLAN FOUNDATION

DECEMBER 31, 2018

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, 2018 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, 2018, 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 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As described in Note 2, DRK adopted the Financial Accounting Standards Board, Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Accordingly, the accounting change has been retrospectively applied to prior periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

Hood & Strong LLP

San Jose, California
May 20, 2019

Draper Richards Kaplan Foundation

Statement of Financial Position

December 31, 2018 (with comparative totals for 2017)	2018	2017
Assets		
Cash and cash equivalents	$ 1,617,748	$ 1,389,798
Investments	24,809,437	26,914,584
Contributions receivable, net	9,428,857	13,465,207
Program-related investments	2,077,411	747,363
Property and equipment, net	74,942	116,033
Other assets	581,411	185,925
Total assets	$ 38,589,806	$ 42,818,910
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 663,686	$ 570,215
Grants payable	150,000	100,000
Total liabilities	813,686	670,215
Net Assets:		
Without donor restriction	28,257,264	28,683,488
With donor restriction	9,518,856	13,465,207
Total net assets	37,776,120	42,148,695
Total liabilities and net assets	$ 38,589,806	$ 42,818,910

See accompanying notes to financial statements.

Draper Richards Kaplan Foundation

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018 (with comparative totals for 2017)

	2018			2017
	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	Total	Total
Revenue and Support:				
Contributions	$ 4,077,098	$ 2,509,654	$ 6,586,752	$ 4,961,738
Net investment return	371,166		371,166	520,944
Net assets released from restrictions	6,456,005	(6,456,005)		
Total revenue and support	10,904,269	(3,946,351)	6,957,918	5,482,682
Expenses:				
Direct grants to beneficiary organizations	4,450,000		4,450,000	4,950,000
Direct program support	4,859,233		4,859,233	5,054,103
Management and general	1,523,157		1,523,157	663,379
Fundraising	498,103		498,103	681,007
Total expenses	11,330,493		11,330,493	11,348,489
Change in Net Assets	(426,224)	(3,946,351)	(4,372,575)	(5,865,807)
Net Assets, beginning of year	28,683,488	13,465,207	42,148,695	48,014,502
Net Assets, end of year	$ 28,257,264	$ 9,518,856	$ 37,776,120	$ 42,148,695

See accompanying notes to financial statements.

Draper Richards Kaplan Foundation

Statement of Cash Flows

Year Ended December 31, 2018 (with comparative totals for 2017)	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	$ (4,372,575)	$ (5,865,807)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	46,239	40,752
Realized gains on investments	(98,979)	(118,048)
Unrealized losses on investments	517,282	317,909
Change in operating assets and liabilities:		
Contributions receivable	4,036,350	4,115,059
Other assets	(395,486)	54,787
Accounts payable and accrued liabilities	93,471	56,203
Grants payable	50,000	-
Net cash used by operating activities	(123,698)	(1,399,145)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(5,148)	(29,038)
Proceeds from sale or redemption of investments	7,342,734	13,983,266
Purchases of investments	(5,655,890)	(12,193,233)
Purchases of program-related investments	(1,330,048)	(500,000)
Net cash provided by investing activities	351,648	1,260,995
Net Change in Cash and Cash Equivalents	227,950	(138,150)
Cash and Cash Equivalents, beginning of year	1,389,798	1,527,948
Cash and Cash Equivalents, end of year	$ 1,617,748	$ 1,389,798
Supplemental Disclosures:		
Excise taxes paid	$ 4,663	$ 9,161
There was no amount paid for interest in 2018 or 2017.		

See accompanying notes to financial statements.

Note 1 - Organization:

Established in 2002, the Draper Richards Kaplan Foundation (DRK) is a not-for-profit organization 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, 2018, DRK has funded and supported 147 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 two classes of net assets:

Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of DRK. These net assets may be used at the discretion of DRK's management and the board of directors.

With Donor Restrictions

Net assets that are subject to stipulations imposed by donors and grantors. DRK's net assets with donor restrictions are temporary in nature and include restrictions that will be met by actions of DRK or by the passage of time.

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 net assets with donor restrictions. 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 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 net assets without donor restrictions, 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 are 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 an investment in a private equity fund which is stated at the fund's net asset value (NAV) 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, simple agreement for future equity, 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 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 has been granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. During 2018 DRK was classified as a private operating foundation and was subject to excise tax on its investment income; however, in December 2018, DRK applied for exemption to become a public charity within the meaning of Section 509(a) of the Internal Revenue Code. DRK expects this exemption to be effective January 1, 2019.

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. Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in Note 10. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis as follows:

- Personnel expenses are allocated by each position's classification after considering the functional roles and time spent in those roles;
- Occupancy and depreciation are allocated based upon factors of full-time equivalency and approximate square footage;
- Professional services and travel, meals and conferences are allocated based upon time and effort;
- Supplies and other expenses are based upon headcount or direct charges to the benefited functional area;
- Grants and direct program support and charged directly to program.

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, 2017, from which the summarized information was derived.

n. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit*, which changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity. Accordingly, the accounting change has been retrospectively applied to all periods presented.

In February 2016, 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. DRK is currently evaluating the impact the adoption of this ASU will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement or cancellation of liabilities, is a contribution or an exchange transaction. It provides a framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The ASU is effective for resource providers and granting entities beginning after December 15, 2019. DRK is currently evaluating the impact the adoption of this ASU will have on its financial statements.

o. Subsequent Events

DRK evaluated subsequent events from December 31, 2018 through May 20, 2019, 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 other than Note 2j and Note 5.

Note 3 - Liquid Assets:

DRK's financial assets at December 31, 2018 that are available to meet general expenditures over the next twelve months are as follows:

Financial assets at year-end:	
Cash and cash equivalents	$ 1,617,748
Contributions receivable	9,428,857
Investments, including program-related investments	26,886,848
Total financial assets	37,933,453
Less amounts not available to be used within one year:	
Long-term pledges receivable	(3,208,028)
Program related investments	(2,077,411)
Private equity fund, included in investments	(847,271)
Financial assets available to meet general expenditures over the next twelve months	$ 31,800,743

DRK's goal is to maintain financial assets to meet all grant and operating needs. As financial obligations become due, investments are liquidated.

Note 4 - Investments:

Investments consist of the following at December 31, 2018:

Corporate fixed income (Level 2)	$ 23,241,507
Treasury securities (Level 2)	550,361
Private equity fund (NAV)	847,271
Cash equivalents held for investment purposes	170,298
Total	$ 24,809,437

The private equity fund is an investment in a limited liability company valued at NAV 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 5 - Program-Related Investments:

DRK makes program-related investments in companies to further DRK's mission. Program-related investments consist of the following at December 31, 2018:

Type	Number	Interest Rate	Amount
Convertible promissory note	6	3 – 8% simple interest per annum	$ 1,000,000
Preferred stock	4	N/A	552,411
Revenue loan promissory note	1	25% if repaid within 2 years; 40% if repaid after 2 years	100,000
Simple agreement for future equity	3	N/A	425,000
Total			$ 2,077,411

In December 2018, DRK entered into two agreements to provide convertible promissory notes in the amount of $150,000 each. These notes were funded in January 2019.

Note 6 - Contributions Receivable:

Contributions receivable at December 31, 2018 consist of the following:

Receivable in less than one year	$ 6,220,829
Receivable in one to five years	3,390,000
Less discounts to net present value	(181,972)
Total contributions receivable	$ 9,428,857

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 2.51%.

Additionally, DRK has received verbal commitments from certain donors as well as other commitments considered conditional. As of December 31, 2018, these verbal commitments totaled $3,300,000. These verbal commitments are not reflected in DRK's financial statements until collected or conditions have been met.

Note 7 - Property and Equipment:

Property and equipment at December 31, 2018 consist of the following:

Furniture and fixtures	$	63,200
Equipment		21,858
Leasehold improvements		42,517
Intangible assets		73,394
		200,969
Accumulated depreciation		(126,027)
Total property and equipment	$	74,942

Depreciation expense for the year ended December 31, 2018 amounted to $46,239.

Note 8 - Grants to Beneficiary Organizations:

During the year ended December 31, 2018, DRK funded or accrued grant payments to the following organizations or their fiscal sponsor:

Advance Peace (Fiscal sponsor: Safe Passages)	$	50,000
Braven (Formerly Beyond Z)		50,000
Barefoot Law		100,000
CAST (Community Arts Stabilization Trust)		50,000
Catie's Closet		50,000
Center for Good Food Purchasing (Fiscal sponsor: Community Partners)		50,000
Coalfield Development		50,000
Common Market		100,000
Detroit Justice Center		50,000
DigDeep		50,000
Digital NEST		50,000
EdBuild		50,000
Education Open Doors		100,000
EforAll		100,000
Empower Schools		100,000
Essie Justice Group		100,000
EYElliance (Fiscal sponsor: The Tides Center)		100,000
Fathers' Uplift		100,000
Feeding Texas Produce Co-op		150,000
Food for Education		100,000
Food Forward		50,000
Foster America (Fiscal sponsor: The Tides Center)		100,000

GlobalXplorer	100,000
GreenWave	100,000
Immigrant Justice Corps	50,000
Indus Action	100,000
International Refugee Assistance Project (Fiscal sponsor: Urban Justice Center)	100,000
Justice Rapid Response	50,000
Kheyti, Inc.	100,000
Laboratoria	100,000
Landed	50,000
Merit America	50,000
New Story	50,000
Noora Health	100,000
Ocean Mind	200,000
OpenBiome	50,000
Open Door Legal	100,000
Open Up Resources (Formerly K-12 OER Collaborative)	100,000
Pollinate Energy	100,000
Power of Two (Fiscal sponsor: Fund for City of New York)	50,000
Rainforest Connection	50,000
Replate	50,000
ROX (Ruling Our eXperiences)	100,000
SaveLife Foundation USA	100,000
Service Year	100,000
Simprints	100,000
Solutions Journalism Network	100,000
StrongMinds	50,000
The Earth Genome	100,000
The GroundTruth Project	100,000
The Nudge Foundation	100,000
Tiny Totos	50,000
Uptrust, Inc.	50,000
Transcend Education	50,000
Vote.org	100,000
Total Grants	$ 4,450,000

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:

2019	$ 3,325,000
2020	1,450,000
2021	400,000
Total	$ 5,175,000

Note 9 - Net Assets with Donor Restrictions:

Net assets with donor restrictions at December 31, 2018 consist of the:

Contributions receivable – time restricted	$ 9,428,856
Other	90,000
Total Net Assets with Donor Restrictions	$ 9,518,856

Net assets were released from restriction during the year ended December 31, 2018 in the amount of $6,456,005 representing payments received on the contributions receivable.

Note 10 - Functional Expenses:

During the year ended December 31, 2018, DRK's expenses presented functionally consisted of the following:

	Program	Management and General	Fundraising	Total
Grants	$ 4,450,000			$ 4,450,000
Salaries and benefits	3,385,142	$ 1,096,469	$ 285,644	4,767,255
Direct program support	527,500			527,500
Occupancy	338,588	148,127	34,060	520,775
Travel, meals and conferences	376,890	55,731	32,646	465,267
Professional services	109,043	170,432	6,141	285,616
Supplies	76,815	37,739	7,638	122,192
Depreciation	30,101	13,110	3,028	46,239
Other	15,154	1,549	128,946	145,649
Total	$ 9,309,233	$ 1,523,157	$ 498,103	$ 11,330,493

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, 2018, the lease requires a rental payment of $19,430 per month plus other operating expenses such as utilities and property taxes. In April 2019, the lease was extended through June 2022, with other lease terms primarily remaining unchanged.

Office Lease - San Francisco

Beginning July 2016, DRK entered into a month to month sub-lease in San Francisco, California. The lease required rental payments of $4,000 per month. As of April 1, 2018, this lease was terminated and DRK entered into another month to month lease in San Francisco, California. This lease required rental payments of $4,800 per month. DRK terminated the agreement as of September 30, 2018.

On October 1, 2018, DRK entered into a new month to month sub-lease in San Francisco, California with a 30-day advance notice for the termination of the agreement. The lease requires rental payments of $8,208 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, 2018, the lease requires a rental payment of $12,152 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, 2018 rent expense was $455,073.

Future minimum rental payments for leasing arrangement as of December 31, 2018, net of sublease receipts, are as follows:

2019	$	362,550
2020		147,994
2021		150,598
2022		153,202
2023		25,606
Total	$	839,950

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 are eligible to participate in the plan. At the end of the calendar year, DRK can make a discretionary contribution equal to a percentage of each active employee’s eligible compensation on an annual basis. Employer contribution expense for the year ended December 31, 2018 amounted to $440,839.

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, 2018, gifts from related parties included in contributions amounted to $62,200. Included in contributions receivable were amounts due from related parties that amounted to $2,563,273.

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.