

**TAPFOUND, INC.
DBA: TAPROOT FOUNDATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Tapfound, Inc.
dba: Taproot Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Tapfound, Inc. dba: Taproot Foundation (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the fifteen months 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 Tapfound, Inc. dba: Taproot Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the fifteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Harrington Group

San Francisco, California
March 28, 2017

TAPFOUND, INC.
DBA: TAPROOT FOUNDATION

STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS

Cash and cash equivalents (Note 2)	\$ 1,232,664
Grants receivable (Note 3)	188,500
Contracts receivable	490,034
Prepaid expenses	48,962
Property and equipment (Note 4)	<u>196,875</u>

TOTAL ASSETS \$ 2,157,035

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 21,426
Accrued vacation	113,945
Accrued liabilities	30,115
Deferred revenue	882,373
Deferred rent	<u>132,010</u>

TOTAL LIABILITIES 1,179,869

NET ASSETS

Unrestricted	(515,357)
Temporarily restricted (Note 7)	<u>1,492,523</u>

TOTAL NET ASSETS 977,166

TOTAL LIABILITIES AND NET ASSETS \$ 2,157,035

The accompanying notes are an integral part of these financial statements.

TAPFOUND, INC.
DBA: TAPROOT FOUNDATION

STATEMENT OF ACTIVITIES

For the fifteen months ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Grants	\$ 3,054,017	\$ 1,482,317	\$ 4,536,334
Contract fees	763,060		763,060
In-kind contributions (Note 8)	6,394,634		6,394,634
Other income	25,146		25,146
Contributions	108,635		108,635
Net assets released from time restrictions	20,000	(20,000)	-
Net assets released from purpose restrictions	985,418	(985,418)	-
	11,350,910	476,899	11,827,809
EXPENSES			
Program services	10,732,032		10,732,032
Administration	1,478,679		1,478,679
Fundraising	770,614		770,614
	12,981,325	-	12,981,325
CHANGE IN NET ASSETS	(1,630,415)	476,899	(1,153,516)
NET ASSETS, BEGINNING OF YEAR	1,115,058	1,015,624	2,130,682
NET ASSETS, END OF YEAR	\$ (515,357)	\$ 1,492,523	\$ 977,166

The accompanying notes are an integral part of these financial statements.

TAPFOUND, INC.
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STATEMENT OF FUNCTIONAL EXPENSES
For the fifteen months ended December 31, 2016

	Program Services				Total Program Services	Administration	Fundraising	Total Expenses
	Advisory Services	Services Grants	Taproot+ Program	Other Program Services				
Personnel expenses	\$ 1,238,591	\$ 460,403	\$ 384,617	\$ 1,665,028	\$ 3,748,639	\$ 621,129	\$ 606,449	\$ 4,976,217
Non personnel expenses	246,892	144,981	54,116	441,685	887,674	1,291,035	104,913	2,283,622
In-kind expenses		1,061,986	4,659,500		5,721,486			5,721,486
Allocation of administration costs	130,474	64,273	28,151	151,335	374,233	(433,485)	59,252	-
TOTAL FUNCTIONAL EXPENSES	\$ 1,615,957	\$ 1,731,643	\$ 5,126,384	\$ 2,258,048	\$ 10,732,032	\$ 1,478,679	\$ 770,614	\$ 12,981,325

The accompany notes are an integral part of these financial statements.

TAPFOUND, INC.
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STATEMENT OF CASH FLOWS
For the fifteen months ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (1,153,516)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:	
Depreciation	259,140
(Increase) decrease in operating assets:	
Grants receivable	342,500
Contracts receivable	(175,534)
Contributions and other receivables	2,187
Prepaid expenses and deposits	79,466
Increase (decrease) in operating liabilities:	
Accounts payable	(85,812)
Accrued vacation	11,486
Accrued liabilities	(62,741)
Deferred revenue	504,446
Deferred rent	15,854
	<hr/>
NET CASH (USED) BY OPERATING ACTIVITIES	(262,524)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(39,025)
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NET CASH (USED) BY INVESTING ACTIVITIES	(39,025)
	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(301,549)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,534,213
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,232,664
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

TAPFOUND, INC.
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NOTES TO FINANCIAL STATEMENTS

1. Organization

Tapfound, Inc. dba: Taproot Foundation (“Taproot Foundation”) is a nonprofit organization that connects nonprofits and other social change organizations with skilled volunteers through pro bono service. Taproot powers collaboration that connects communities and drives social change.

Taproot is creating a world where organizations dedicated to social change have full access—through pro bono service—to the marketing, strategy, HR, and IT resources they need to be most effective. Taproot pairs nonprofit staff with qualified, skilled volunteers for high-impact, high-quality pro bono service in a range of ways, from team-based, long-term projects to one-time, one-on-one consultations. Taproot also empowers nonprofits to develop their own, independent use of pro bono resources through targeted training and consulting. Taproot works with organizations to understand their infrastructure needs and to connect them to the right Taproot program at the right time.

Taproot designs and implement pro bono programs that help forward-thinking corporations leverage employee skills and talents, going beyond traditional employee engagement to the leadership development and team-building that support recruitment and retention, community commitment, and innovation.

Taproot mobilizes the growing global pro bono movement by convening meetings of pro bono leaders and sharing research and best practices that inspire others to action. From our offices in New York, San Francisco Bay Area, Chicago, Los Angeles, and Washington D.C., Taproot supports pro bono across the country, as well as a network of pro bono providers across the globe.

The Taproot Foundation changed its year end from a fiscal to a calendar year end to better align the funding and business cycle.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Taproot Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

TAPFOUND, INC.
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NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, consulting services and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Taproot Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Taproot Foundation to expend all of the income (or other economic benefits) derived from the donated assets. Taproot Foundation had no permanently restricted net assets at December 31, 2016.

Cash and Cash Equivalents

Taproot Foundation has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Taproot Foundation is required to measure pledged contributions and non-cash contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

continued

TAPFOUND, INC.
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NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Concentration of Credit Risks

Taproot Foundation places its temporary cash and cash equivalents investments with quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Taproot Foundation has not incurred losses related to these investments. Cash in one financial institution at December 31, 2016 was \$1,177,265.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to two thousand five hundred dollars and the useful life is greater than one year.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received (see Note 9).

Professional volunteer services which are facilitated by Taproot Foundation, but received by other nonprofit organizations, are not recorded on the books because they are considered to be agency transactions. Taproot Foundation conservatively estimated the value of these services at \$11,460,000 for the fifteen months period ended December 31, 2016.

Income Taxes

Taproot Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Taproot Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Taproot Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

TAPFOUND, INC.
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NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses

Costs of providing Taproot Foundation's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Taproot Foundation allocates indirect or shared costs according to a formula based on the estimated relative amount of staff time spent on the particular function.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through March 28, 2017, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Grants Receivable

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. All grants are valued at estimated fair value at December 31, 2016 and are expected to be collected within one year. Grants receivable at December 31, 2016 were \$188,500.

4. Property and Equipment

Property and equipment at December 31, 2016 consist of the following:

Equipment and furnishings	\$ 195,019
Leasehold improvements	105,680
Website	<u>517,146</u>
	817,845
Less: accumulated depreciation	<u>(620,970)</u>
	<u>\$ 196,875</u>

Depreciation expense for the fifteen months period ended December 31, 2016 was \$259,140.

continued

TAPFOUND, INC.
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NOTES TO FINANCIAL STATEMENTS

5. Letter of Credit

Taproot Foundation has a letter of credit with Union Bank, in the amount of \$45,000, functioning as a security deposit for Taproot's new Chicago office. The Letter of Credit will automatically extend without an amendment upon each anniversary date beginning on February 21, 2017 and finally expire on July 31, 2023.

6. Commitments and Contingencies

Obligations Under Operating Leases

Taproot Foundation leases various facilities under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with an initial or remaining term of one year or more, consist of the following:

<u>Year ended December 30,</u>	
2017	\$ 400,264
2018	404,884
2019	415,441
2020	385,953
2021	<u>328,870</u>
	<u>\$1,935,412</u>

Rental expense under operating leases for the fifteen months period ended December 31, 2016 was \$505,894.

Contracts

Taproot Foundation's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Taproot Foundation has no provisions for the possible disallowance of program costs on its financial statements.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 consist of the following:

Service grants	\$ 471,436
Events	467,500
Virtual programming	340,251
Other	<u>213,336</u>
	<u>\$1,492,523</u>

continued

TAPFOUND, INC.
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NOTES TO FINANCIAL STATEMENTS

7. Temporarily Restricted Net Assets, continued

For the fifteen months period ended December 31, 2016, net assets released from restrictions were \$1,005,418 of which \$20,000 was released from time restrictions and \$985,418 were released from purpose restrictions.

8. In-kind Contributions

In-kind contributions for the fifteen months period ended December 31, 2016 consist of services provided in the amount of \$6,394,634, approximately \$4.6 million is related to LinkedIn marketing in-kind contribution (covering the period December 2015 through December 2016) for the Taproot+ program.

9. Fair Value Measurements

The table below presents transactions measured at fair value on a non-recurring basis during fifteen months period ended December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$6,394,634	\$ -	\$6,394,634

The fair value of contributed services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

10. Other Matter

Beginning in 2010, Taproot Foundation moved into a decentralized structured organization, with executive directors, program teams and development staff in five cities across the country, responsible for budgets in their own cities with allocation of overhead from national finance and administration support. In 2014, Taproot Foundation launched our online platform, Taproot+ and increasingly began offering national programs via our virtual and Advisory Services offerings. In January of 2016, it became clear to management that the decentralized structure was not working in response to the overall shift in programming. Local, more regionalized funding decreased and during this time of transition, for the first half of FY16 (October – March 2016) Taproot Foundation's expenses exceeded its unrestricted revenue. At a board meeting in April 2016, management and the board made a decision to significantly reduce expenses including labor expenses and structure the organization in a more centralized way. In May, 2016, this restructuring and reduction of expenses took effect, resulting in an improvement in unrestricted net assets, lower expenses and improved cash.