

Tapfound, Inc.
d.b.a. Taproot Foundation

Financial Statements &
Independent Auditor's Report
for the Year Ended
December 31, 2017

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COOK & COMPANY

A PROFESSIONAL ACCOUNTANCY CORPORATION

Independent Auditor's Report

To the Board of Directors
Tapfound, Inc., d.b.a. Taproot Foundation
San Francisco, California

We have audited the accompanying financial statements of Tapfound, Inc., d.b.a. Taproot Foundation, (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, the related statements of activities and changes in net assets, functional expenses, 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.

Auditor's 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 of 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 an assessment of the risks of the 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., d.b.a. Taproot 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.



A Professional Accountancy Corporation
June 14, 2018

Tapfound, Inc.
d.b.a. Taproot Foundation

Statement of Financial Position
December 31, 2017

ASSETS

Current Assets:

Cash & cash equivalents	\$ 891,616
Contracts receivable	268,393
Grants receivable, due within one year	411,208
Other receivables	17,944
Prepaid expenses	<u>50,063</u>
Total current assets	1,639,224

Grants receivable, due in one to two years	50,000
Deposits	49,232
Property & equipment, net (Note 3)	46,953
Intangible assets (Note 4)	<u>-</u>

TOTAL ASSETS \$ 1,785,409

LIABILITIES & NET ASSETS

Current Liabilities:

Accounts payable & accrued expenses	\$ 42,011
Accrued vacation pay	77,766
Deferred rent, current	35,344
Deferred program revenue	<u>1,374,022</u>
Total current liabilities	1,529,143

Deferred rent, long-term 92,244

TOTAL LIABILITIES 1,621,387

Net Assets

Unrestricted (Note 5)	(624,935)
Temporarily restricted (Note 6)	<u>788,957</u>

TOTAL NET ASSETS 164,022

TOTAL LIABILITIES & NET ASSETS \$ 1,785,409

See accompanying notes to financial statements
and independent auditor's report.

Tapfound, Inc.
d.b.a. Taproot Foundation

Statement of Activities and Changes in Net Assets
for the Year Ended December 31, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
SUPPORT & REVENUE			
Support			
In-kind support (Note 7)	\$ 5,601,960		\$ 5,601,960
Corporate & foundation grants	763,227	\$ 998,375	1,761,602
Individual contributions	93,366		93,366
Net assets released from restriction:			
Satisfaction of donor restrictions	<u>1,711,941</u>	<u>(1,711,941)</u>	<u>-</u>
Total support	8,170,494	(713,566)	7,456,928
Revenue			
Fees for services	1,475,004		1,475,004
Membership dues	79,917	10,000	89,917
Other	<u>8,431</u>		<u>8,431</u>
Total revenue	<u>1,563,352</u>	<u>10,000</u>	<u>1,573,352</u>
TOTAL SUPPORT & REVENUE	9,733,846	(703,566)	9,030,280
EXPENSES			
Program services	8,132,771		8,132,771
Management & general	1,324,398		1,324,398
Development	<u>386,255</u>		<u>386,255</u>
TOTAL EXPENSES	<u>9,843,424</u>	<u>-</u>	<u>9,843,424</u>
CHANGE IN NET ASSETS	(109,578)	(703,566)	(813,144)
NET ASSETS, beginning of year	<u>(515,357)</u>	<u>1,492,523</u>	<u>977,166</u>
NET ASSETS, end of year	<u>\$ (624,935)</u>	<u>\$ 788,957</u>	<u>\$ 164,022</u>

See accompanying notes to financial statements
and independent auditor's report.

Tapfound, Inc.
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Statement of Functional Expenses
for the Year Ended December 31, 2017

	Program Services	Management & General	Development	Shared Costs	Total
Salaries	\$ 1,952,727	\$ 462,024	\$ 229,131		\$ 2,643,882
Benefits	127,299	29,502	14,847		171,648
Payroll taxes	170,944	39,605	20,103		230,652
Outside services	98,667	559,162	14,273	\$ 48,920	721,022
Advertising / marketing	5,094,703	13,997	16,385		5,125,085
Office expenses	650	3,217	43	27,780	31,690
Information technology	5,282	7,257		49,229	61,768
Occupancy				407,826	407,826
Travel	72,189	13,771	18,188	11,739	115,887
Conferences	6,699	2,365	2,514	18,066	29,644
Depreciation / amortization				149,921	149,921
Insurance				17,797	17,797
Other expenses	60,867	50,783	5,413	19,539	136,602
Allocation of shared costs	542,744	142,715	65,358	(750,817)	-
Total	\$ 8,132,771	\$ 1,324,398	\$ 386,255	\$ -	\$ 9,843,424

See accompanying notes to financial statements
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Tapfound, Inc.
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Statement of Cash Flows
for the Year Ended December 31, 2017

Cash flows from operating activities:

Change in net assets	\$ (813,144)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation & amortization expense	149,921
Changes in assets and liabilities:	
(Increase) decrease in grants & contracts receivable	(51,067)
(Increase) decrease in other receivables	(17,943)
(Increase) decrease in prepaid expenses & other assets	(50,333)
Increase (decrease) in accounts payable & accrued expenses	(9,530)
Increase (decrease) in accrued vacation	(36,179)
Increase (decrease) in deferred rent	(4,422)
Increase (decrease) in deferred revenue	<u>491,649</u>
Cash provided (used) by operating activities:	<u>(341,048)</u>
Cash provided (used) during year	(341,048)
Cash balance, beginning of year	<u>1,232,664</u>
Cash balance, end of year	<u><u>\$ 891,616</u></u>

See accompanying notes to financial statements
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Tapfound, Inc.
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Notes to the Financial Statements
for the Year Ended December 31, 2017

1. The Organization

Nature of Activities

Tapfound, Inc., d.b.a. Taproot Foundation, (Taproot or the Organization) is a national nonprofit organization that connects nonprofits and social change organizations with passionate, skilled volunteers who share their expertise pro bono. 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 estimates that, since 2001, its skilled volunteers have served 6,000 social change organizations providing 1.6 million hours of work worth over \$180 million in value. Taproot is located in New York City, Chicago, San Francisco Bay Area, and Los Angeles, and is leading a network of global pro bono providers in over 30 countries around the world.

Funding

Major support is received in the form of in-kind contributions (as discussed in Notes 2 and 7), as well as grants from corporations and foundations. In addition, Taproot generates a substantial amount of revenue from fees charged as part of its advisory services program.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, support is recognized when it is awarded, revenue is recognized when it is earned and realizable, and expenses are recognized when they are incurred.

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets, which includes resources not subject to donor-imposed restrictions.

Temporarily restricted net assets, which includes resources subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Revenue Recognition

The Organization reports gifts of cash and other assets as 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 purpose 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 restrictions.

Gifts of fixed assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Tapfound, Inc.
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Notes to the Financial Statements
for the Year Ended December 31, 2017

Cash & Cash Equivalents

The balance of cash and equivalents includes deposits held in bank checking and savings accounts, as well as money market funds held with an investment brokerage firm.

Grants & Contracts Receivable

Grants & contracts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on management's judgment, an allowance for doubtful accounts has not been recorded. Amounts due within one year of the balance sheet date are stated at face value, while amounts due beyond one year are discounted to present value only when such discounts would be material to the financial statements. Currently, there are no discounts reflected in the accompanying financial statements.

Fair Value of Financial Instruments

The carrying amounts of cash, receivables, and accounts payable approximate fair value because of the short maturity of these instruments.

Property & Equipment

The Organization capitalizes all expenditures for office furnishings and equipment in excess of \$2,500. Purchased assets are carried at cost, while donated assets are recorded at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from five to ten years for assets currently in service.

Intangible Assets

The Organization has incurred costs for the design, development and implementation of its website. Costs relating to the development of the site's infrastructure have been capitalized as intangible assets. Amortization is computed using the straight-line method over a three-year period.

Deferred Rent

The Organization rents office space under various operating leases that contain a rent abatement and/or staggered payment schedule. In accordance with generally accepted accounting principles, Taproot recognizes the associated rent expense on a straight-line basis over the course of the lease term. The difference between payments made and expense recognized to date is reflected as a liability which shall be amortized over the course of the leases.

Deferred Revenue

Deferred revenue consists of amounts received in advance for program service contracts. Such amounts will be recognized as revenue when the respective program activities occur.

In-kind Support

In-kind contributions consist of online advertising and legal services provided to the Organization free of charge. These contributions are reflected in the financial statements at their estimated fair market value as of the date of receipt.

Contributed services are recorded only if they a) create or enhance the Organization's nonfinancial assets or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Professional volunteer services which are facilitated by Taproot, but received by other nonprofit organizations, are not recorded on the books because they are considered to be agency transactions.

Tapfound, Inc.
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Notes to the Financial Statements
for the Year Ended December 31, 2017

Functional Expenses

The Organization allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program or support service are allocated directly. Expenses that are common to several functions are allocated based on the estimated amount of staff time spent on those functions.

Income Taxes

As a public charity, the Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3), except on activities unrelated to its mission. Since management believes that all of the Organization's activities are directly related to its mission, no provision has been made for income tax expense. The Organization's federal *Return of Organization Exempt from Income Tax* (Form 990) filings for the tax years ending in 2015 through 2017 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. The Organization's California *Exempt Organization Annual Information Return* (Form 199) filings for the tax years ending in 2014 through 2017 are subject to examination by the Franchise Tax Board, generally for four years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Property & Equipment

Furnishings & equipment	\$140,601
Leasehold improvements	102,284
Less: accumulated depreciation	<u>(195,932)</u>
Net book value	\$46,953

4. Intangible Assets

Capitalized website costs	\$517,146
Less: accumulated amortization	<u>(517,146)</u>
Net book value	\$0

Tapfound, Inc.
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Notes to the Financial Statements
for the Year Ended December 31, 2017

5. Unrestricted Net Assets

As of December 31, 2017, the Organization has negative unrestricted net assets of \$624,935. This is attributable to operating losses occurring in 2016 and 2017.

The Organization anticipates eliminating the negative unrestricted net asset balance through a combination of the following activities:

- 1) Taproot is committed to ensuring a positive unrestricted margin over a three-year period, which will address the current situation regarding a negative net asset balance reflected in the 2017 audited financial statements.
- 2) Taproot plans to complete its work of doing a full cost/price analysis for all organizational programming and the subsequent implementation of recommended updates, resulting in more appropriate margins per offering across the organization's programming.
- 3) Taproot plans to continue an ongoing revenue review and expense adjustments throughout the fiscal year as necessary, with the goal of resulting in a positive margin for the Organization.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets represent amounts that are donor-restricted for the following:

Taproot+ program, team projects and related events	\$533,500
General support for 2018 and other activities	<u>255,457</u>
Total	\$788,957

7. In-kind Support

LinkedIn marketing for Taproot+ program	\$5,000,000
Other online marketing for volunteer program	103,170
Legal services	469,625
Other services	<u>29,165</u>
Total	\$5,601,960

8. Operating Leases

During 2017, the Organization rented office space in Chicago, New York, Oakland, and Washington, D.C. under operating leases with various terms. Future minimum lease payments are as follows:

2018	\$332,319
2019	299,498
2020	266,532
2021	205,866
2022	67,746
2023	<u>40,078</u>
Total	\$1,212,039

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Notes to the Financial Statements
for the Year Ended December 31, 2017

9. Letter of Credit

The Organization has a letter of credit with a bank in the amount of \$45,000, which serves as a security deposit for Taproot's 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.

10. Cash Deposits in Excess of FDIC Insurance Limits

Taproot maintains substantially all its cash deposits with one financial institution. Such amounts may at times exceed Federal Deposit Insurance Corporation limits, however, management believes the risk of loss is minimal. To date, Taproot has not experienced any losses in these accounts.

11. Contingency – Satisfaction of Donor Requirements

The Organization receives contributions that are restricted for a specific program or purpose. If such restrictions are not met in accordance with the funding source agreement, there is the possibility that funds would have to be returned to the donor. It is management's opinion that all donor restrictions have been satisfied for grants and contributions that have either been released from temporarily restricted net assets or recorded directly to unrestricted net assets.

12. Related Party Transactions

During 2017, the co-chair of the board of directors was compensated approximately \$39,000 for serving as the Organization's interim chief executive officer.

13. Subsequent Events

Lease Termination

In January 2018, Taproot executed an agreement to change the expiration date of its Oakland lease from December 2022 to February 2018. In exchange for the early termination of the lease, Taproot agreed to pay the landlord a fee of \$40,000, which shall be recognized as an expense in the 2018 financial statements. In addition, approximately \$25,000 in leasehold improvements will be written off as a result of the termination. These costs will be partially offset through the elimination of the deferred rent liability attributable to the Oakland lease (discussed in Note 2), which was approximately \$15,000 as of December 31, 2017.

Financial Statement Preparation

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 14, 2018, which is the date the financial statements were available to be issued.