

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

Financial Statements &
Independent Auditor's Report
for the Year Ended
December 31, 2018

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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, 2018, 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, 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 the December 31, 2017, financial statements of Tapfound, Inc., d.b.a. Taproot Foundation, and our report dated June 14, 2018, expressed an unmodified opinion on those audited financial statements. 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.



A Professional Accountancy Corporation
April 22, 2019

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

Statement of Financial Position
December 31, 2018
with Comparative Totals for December 31, 2017

	<u>12/31/2018</u>	<u>12/31/2017</u> (Note 2)
ASSETS		
Current Assets:		
Cash & cash equivalents	\$ 823,766	\$ 891,616
Contracts receivable	127,582	268,393
Grants receivable, due within one year	208,664	411,208
Other receivables	16,140	17,944
Prepaid expenses	95,162	50,063
Total current assets	<u>1,271,314</u>	<u>1,639,224</u>
Grants receivable, due in one to two years	-	50,000
Deposits	39,867	49,232
Property & equipment, net (Note 3)	16,490	46,953
Intangible assets (Note 4)	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$1,327,671</u></u>	<u><u>\$1,785,409</u></u>
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable & accrued expenses	\$ 37,787	\$ 42,011
Accrued vacation pay	94,969	77,766
Deferred rent, current	26,296	35,344
Deferred program revenue	1,391,045	1,374,022
Total current liabilities	<u>1,550,097</u>	<u>1,529,143</u>
Deferred rent, long-term	<u>65,606</u>	<u>92,244</u>
TOTAL LIABILITIES	1,615,703	1,621,387
Net Assets		
Without donor restrictions (Note 5)	(642,229)	(624,935)
With donor restrictions (Note 6)	<u>354,197</u>	<u>788,957</u>
TOTAL NET ASSETS	<u>(288,032)</u>	<u>164,022</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$1,327,671</u></u>	<u><u>\$ 1,785,409</u></u>

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

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Statement of Activities and Changes in Net Assets
for the Year Ended December 31, 2018
with Comparative Totals for the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total (Note 2)
SUPPORT & REVENUE				
Support				
In-kind support (Note 7)	\$ 5,271,645		\$ 5,271,645	\$5,601,960
Corporate & foundation grants	161,335	\$ 788,539	949,874	1,761,602
Individual contributions	25,137		25,137	93,366
Net assets released from restriction:				
Satisfaction of donor restrictions	1,223,299	(1,223,299)	-	-
Total support	6,681,416	(434,760)	6,246,656	7,456,928
Revenue				
Fees for services	2,620,549		2,620,549	1,475,004
Membership dues	111,665		111,665	89,917
Other	2,732		2,732	8,431
Total revenue	2,734,946	-	2,734,946	1,573,352
TOTAL SUPPORT & REVENUE	9,416,362	(434,760)	8,981,602	9,030,280
EXPENSES				
Program services	7,687,842		7,687,842	7,906,225
Marketing	272,640		272,640	226,546
Management & general	1,047,488		1,047,488	1,324,398
Development	425,686		425,686	386,255
TOTAL EXPENSES	9,433,656	-	9,433,656	9,843,424
CHANGE IN NET ASSETS	(17,294)	(434,760)	(452,054)	(813,144)
NET ASSETS, beginning of year	(624,935)	788,957	164,022	977,166
NET ASSETS, end of year	\$ (642,229)	\$ 354,197	\$ (288,032)	\$ 164,022

See accompanying notes to financial statements
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Statement of Functional Expenses
for the Year Ended December 31, 2018
with Comparative Totals for the Year Ended December 31, 2017

	Supporting Services				Shared Costs	2018 Total	2017 Total (Note 2)	
	Program Services	Marketing	Management & General	Development				Total
Salaries	\$ 1,717,438	\$ 161,819	\$ 368,389	\$ 314,275	\$ 844,483	\$ -	\$ 2,561,921	\$ 2,643,882
Benefits	116,196	11,467	24,406	19,703	55,576	-	171,772	171,648
Payroll taxes	140,926	14,159	29,587	24,930	68,676	-	209,602	230,652
Outside services	178,373	32,340	400,381	-	432,721	-	611,094	721,022
Advertising / marketing	5,000,000	10,000	71,615	-	81,615	-	5,081,615	5,125,085
Office expenses	761	-	1,821	66	1,887	26,210	28,858	31,690
Information technology	11,291	2,818	3,401	-	6,219	43,901	61,411	61,768
Occupancy	-	-	-	-	-	332,055	332,055	407,826
Travel	103,639	483	10,751	13,785	25,019	14,667	143,325	115,887
Conferences	6,460	-	438	1,628	2,066	23,157	31,683	29,644
Event expense	40,961	-	-	-	-	-	40,961	40,970
Depreciation / amortization	20,504	2,016	4,185	3,757	9,958	-	30,462	149,921
Insurance	-	-	-	-	-	18,552	18,552	17,797
Other expenses	15,876	4,435	79,254	1,040	84,729	9,740	110,345	95,632
Allocation of shared costs	335,417	33,103	53,260	46,502	132,865	(468,282)	-	-
Total	\$ 7,687,842	\$ 272,640	\$ 1,047,488	\$ 425,686	\$ 1,745,814	\$ -	\$ 9,433,656	\$ 9,843,424

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

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Statement of Cash Flows
for the Year Ended December 31, 2018
with Comparative Totals for the Year Ended December 31, 2017

	2018	2017 <u>(Note 2)</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ (452,054)	\$ (813,144)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation & amortization expense	30,462	149,921
Changes in assets and liabilities:		
(Increase) decrease in grants & contracts receivable	393,355	(51,067)
(Increase) decrease in other receivables	1,803	(17,943)
(Increase) decrease in prepaid expenses & other assets	(35,734)	(50,333)
Increase (decrease) in accounts payable & accrued expenses	(4,222)	(9,530)
Increase (decrease) in accrued vacation	17,203	(36,179)
Increase (decrease) in deferred rent	(35,686)	(4,422)
Increase (decrease) in deferred revenue	<u>17,023</u>	<u>491,649</u>
Cash provided (used) by operating activities:	<u>(67,850)</u>	<u>(341,048)</u>
Cash provided (used) during year	(67,850)	(341,048)
Cash balance, beginning of year	<u>891,616</u>	<u>1,232,664</u>
Cash balance, end of year	<u><u>\$ 823,766</u></u>	<u><u>\$ 891,616</u></u>

See accompanying notes to financial statements
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Notes to the Financial Statements
for the Year Ended December 31, 2018

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. Since 2001, Taproot's network of skilled volunteers has served 6,627 social change organizations providing 1.6 million hours of work worth over \$190 million in value. Taproot has offices in New York City, Chicago, San Francisco Bay Area, and Los Angeles, and partnered to found a network of global pro bono providers in over 30 countries around the world.

Taproot's program services include the following major components:

Taproot+ Projects - Through its online matchmaking platform, Taproot and its network of volunteer professionals support nonprofits with projects in areas like marketing, IT, HR, finance, strategic planning and more.

Taproot+ Sessions - Nonprofits brainstorm, diagnose challenges, get advice, and plan next steps through Taproot's one-hour, one-on-one virtual consultation sessions with skilled volunteers.

Pro Bono Workshops & Events - Taproot's speed consulting and pro bono marathon events provide nonprofits with the opportunity to connect in-person with skilled volunteers through consultation sessions and deep-dive one-day projects to gather insights and address organizational challenges.

Advisory Services - Taproot's advisory services team (AS) helps companies design, implement, and enhance their pro bono offerings. This includes developing program strategy, program implementation and evaluation, as well as research and thought leadership.

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:

Net assets without donor restrictions, which includes resources not subject to, or no longer subject to, donor-imposed stipulations.

Net assets with donor restrictions, which includes resources whose use is limited by donor-imposed time and/or purpose restrictions.

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Revenue and support are reported as increases in *net assets without donor restrictions* unless use of the contributed assets is limited by donor-imposed stipulations. All expenses, including those funded by restricted contributions, are reported as decreases in *net assets without donor restrictions*. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in *net assets without donor restrictions* unless they are encumbered by explicit donor stipulation or by law. Expirations of donor-restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time-period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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.

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Notes to the Financial Statements
for the Year Ended December 31, 2018

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.

Functional Expenses

The Organization presents its expenses by function and natural category. The compensation expense for certain employees is allocated to various functions according to management's estimate of time and effort.

<u>Position(s)</u>	<u>Functions Expensed</u>
Chief Executive Officer	Management & General, Development
Marketing Staff	Management & General, Marketing
Business Development & External Relations	Development, Marketing, Program Services
Corporate Partnerships	Development, Marketing

Finance & administration department staff are charged entirely to *management & general*. All other positions are charged entirely to *program services*.

Occupancy-related shared costs are allocated according to the approximate space used by each function. Other shared costs are allocated based on overall time and effort expended on each function.

Other expenses are charged directly to the appropriate function based on specific identification.

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 2016 through 2018 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 2015 through 2018 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.

New Accounting Pronouncement

These financial statements reflect the provisions of Accounting Standards Update No. 2016-14—*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14), which was issued by the Financial Accounting Standards Board (FASB) in August 2016 and effective for calendar years ending in 2018 and beyond.

This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return amongst not-for-profit entities. A key change

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Notes to the Financial Statements
for the Year Ended December 31, 2018

required by ASU 2016-14 is the net asset class captions displayed in not-for-profit financial statements. Amounts previously reported as *unrestricted net assets* are now reported as *net assets without donor restrictions*, and amounts previously reported as *temporarily restricted net assets* and *permanently restricted net assets* are now reported as *net assets with donor restrictions*. A footnote on liquidity has also been added (Note 13).

Prior Year Comparative Data

The financial statement information for the year ended December 31, 2017, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation, please refer to the financial statements for that fiscal year.

Certain amounts from the 2017 financial statements have been reclassified to conform to the 2018 presentation.

3. Property & Equipment

Furnishings & equipment	\$25,520
Leasehold improvements	65,459
Less: accumulated depreciation	<u>(74,489)</u>
Net book value	\$16,490

4. Intangible Assets

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

5. Net Assets without Donor Restrictions

As of December 31, 2018, the Organization has negative unrestricted net assets of \$642,229. 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 2018 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.

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Notes to the Financial Statements
for the Year Ended December 31, 2018

6. Net Assets with Donor Restrictions

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

Global Summit sponsorship 2018	\$157,164
Taproot+ program, team projects and related events	109,000
Other activities	<u>88,033</u>
Total	\$354,197

7. In-kind Support

LinkedIn marketing for Taproot+ program	\$5,000,000
Legal services	254,461
Other services	<u>17,184</u>
Total	\$5,271,645

8. Operating Leases

During 2018, the Organization rented office space in various U.S. cities under operating leases with various terms. Future minimum lease payments are as follows:

2019	\$307,246
2020	274,428
2021	208,514
2022	67,746
2023	<u>40,078</u>
Total	\$898,012

9. Letter of Credit

The Organization has a letter of credit with a bank in the amount of \$28,000 as of December 31, 2018, 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.

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Notes to the Financial Statements
for the Year Ended December 31, 2018

11. Contingencies – 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 2018, the co-chair of the board of directors was compensated approximately \$57,750 for serving as the Organization's interim chief executive officer.

13. Management's Liquidity Disclosure

Taproot Foundation reviews cash flow on a monthly basis by reviewing projected incoming cash and overlaying that with projected outgoing cash. The report is presented as part of the monthly financial statements to the board finance committee and, quarterly as part of the report, to the board as a whole. To support responsible planning and management we have established triggers related to our cash flow. We consider projecting cash levels at or below 30 days of total projected expenses within the next 3 months to be a trigger that would require immediate expense cutting action by management. The majority of our receivables are based on contracts or grants from our corporate partners. Contracts generally have payment schedules outlined in the contract. Grants often get paid as lump sums at or near time of commitment.

Financial assets available to meet cash needs for general expenditures within one year are as follows:

Cash & equivalents	\$823,766
Grants & contacts receivable	336,246
Less: net assets with donor restrictions	<u>(354,197)</u>
Total	\$805,815

14. Subsequent Events – Financial Statement Presentation

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 22, 2019, which is the date the financial statements were available to be issued.