

Zcash Foundation

Financial Statements
and Independent Auditors' Report

December 31, 2018

Zcash Foundation

Financial Statements
December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Zcash Foundation

We have audited the accompanying financial statements of Zcash Foundation (“the Organization”), which comprise the statement of financial position as of December 31, 2018; the related statements of activities, 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 controls 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 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 Organization 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.

Emphasis of Matter

As disclosed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the issuance of the statement of functional expenses, additional footnote disclosures, and changes to the classification of net assets. Our opinion is not modified with respect to this matter.




June 3, 2020

Zcash Foundation

Statement of Financial Position December 31, 2018

Assets	
Cash	\$ 4,990,305
Investments in cryptocurrency	3,417,242
Prepaid expenses and deposits	<u>4,670</u>
Total assets	<u><u>\$ 8,412,217</u></u>
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	\$ 36,192
Note payable	<u>465</u>
Total liabilities	<u>36,657</u>
Net Assets	
Without donor restrictions	<u>8,375,560</u>
Total net assets	<u>8,375,560</u>
Total liabilities and net assets	<u><u>\$ 8,412,217</u></u>

Zcash Foundation

Statement of Activities For the Year Ended December 31, 2018

Revenue and Support	
Contributions	\$ 14,210,732
Meetings	83,165
Realized and unrealized depreciation on investments in cryptocurrency	(5,075,291)
Interest	341
	<hr/>
Total revenue and support	9,218,947
	<hr/>
Expenses	
Program services:	
Community	550,482
Protocol	303,501
Science	31,488
	<hr/>
Total program services	885,471
	<hr/>
Supporting services:	
Management and general	285,194
Fundraising	637
	<hr/>
Total supporting services	285,831
	<hr/>
Total expenses	1,171,302
	<hr/>
Change in Net Assets	8,047,645
Net Assets, beginning of year	327,915
	<hr/>
Net Assets, end of year	<u><u>\$ 8,375,560</u></u>

Zcash Foundation

Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services				Supporting Services		Total Expenses
	Community	Protocol	Science	Total Program Services	Management and General	Fundraising	
Personnel costs	\$ 119,432	\$ 51,596	\$ -	\$ 171,028	\$ 171,423	\$ -	\$ 342,451
Consultants	21,332	50,659	6,332	78,323	24,665	-	102,988
Professional fees	-	-	-	-	45,630	-	45,630
Travel and events	383,299	-	-	383,299	-	-	383,299
Occupancy	-	-	-	-	-	637	637
Sales and marketing	-	-	-	-	223	-	223
Telephone and internet	-	-	-	-	30	-	30
Office expenses	-	-	-	-	4,562	-	4,562
Postage and printing	-	-	-	-	260	-	260
Insurance	-	-	-	-	10,500	-	10,500
Meals and entertainment	1,263	-	-	1,263	-	-	1,263
Bank fees	-	-	-	-	24,275	-	24,275
Merchandise	-	-	-	-	181	-	181
Equipment	-	-	-	-	3,000	-	3,000
Grants and sponsorships	25,156	201,246	25,156	251,558	-	-	251,558
Miscellaneous	-	-	-	-	445	-	445
Total Expenses	\$ 550,482	\$ 303,501	\$ 31,488	\$ 885,471	\$ 285,194	\$ 637	\$ 1,171,302

See accompanying notes.

Zcash Foundation

Statement of Cash Flows For the Year Ended December 31, 2018

Cash Flows from Operating Activities	
Change in net assets	\$ 8,047,645
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Realized and unrealized depreciation on investments in cryptocurrency	5,075,291
Donated cryptocurrency	(14,098,196)
Change in operating assets and liabilities:	
Decrease in:	
Prepaid expenses and deposits	10,936
Increase in:	
Accounts payable and accrued expenses	29,932
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Net cash used in operating activities	(934,392)
Cash Flows from Investing Activities	
Distribution of cryptocurrency	281,578
Proceeds from sales of cryptocurrency	5,324,243
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Net cash provided by investing activities	5,605,821
Cash Flows from Financing Activities	
Proceeds from note payable	327
Repayments of note payable	(2,592)
	<hr/>
Net cash used in financing activities	(2,265)
Net Increase in Cash	4,669,164
Cash, beginning of year	321,141
	<hr/>
Cash, end of year	<u>\$ 4,990,305</u>
Supplementary Disclosure of Cash Flow Information	
Noncash activity:	
Donated cryptocurrency	<u>\$ 14,098,196</u>

See accompanying notes.

Zcash Foundation

Notes to Financial Statements
December 31, 2018

1. Nature of Operations

The Zcash Foundation (“the Organization”) was founded on February 14, 2017 and was organized as a nonprofit corporation under the laws of the State of Delaware. The Organization’s mission is to build internet payment and privacy infrastructure for the public good, primarily serving the users of the Zcash protocol and blockchain.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization’s financial statements are prepared on the accrual basis of accounting. Accordingly, net assets without donor restrictions represent funds that are not subject to donor-imposed stipulations and are available for support of the Organization’s operations. All net assets were without donor restrictions at December 31, 2018.

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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments in Cryptocurrency

Investments are comprised of Zcash cryptocurrency (ZEC) and Bitcoin cryptocurrency (BTC), and are reported at fair value as determined by digital asset market exchanges with realized gains and losses calculated on a trade data basis as the difference between the fair value and cost of cryptocurrencies transferred. The Organization recognizes the fair value changes in unrealized appreciation or depreciation on investment through the accompanying statement of activities. As of December 31, 2018, the Organization’s investments had a fair value of \$3,417,242.

In-Kind Contributions

Donated noncash items are recorded as support at their estimated fair values at the date of donation. Donated services are recognized if the services received create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided as donations. In-kind contributions are recognized in contributions on the statement of activities.

Zcash Foundation

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Organization reports contributions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions are reported as net assets without donor restrictions if the restrictions are met in the same period as received.

The Organization records cryptocurrency pledges at the time of payment, due to high volatility of the cryptocurrency market.

Meeting revenues are recognized at the time of the meeting. Meeting registrations received that are applicable to the following year are included in deferred revenue in the accompanying financial statements. There was no deferred revenue at December 31, 2018.

Revenue from all other sources is recognized when earned.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$2,383 during the year ended December 31, 2018.

Zcash Foundation

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Change in Accounting Principle

On August 18, 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 Entities*. The 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. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The implementation had no impact on previously reported net assets.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 – *Revenue from Contracts with Customers* (Topic 606). The update establishes a comprehensive revenue recognition standard for virtually all industries including those that previously followed industry-specific guidance. The update requires that revenue be recognized to depict the transfer of promised goods and services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for these goods and services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606) – *Deferral of the Effective Date*, which deferred the effective date for one year. The guidance is effective beginning in the Organization’s fiscal year 2019.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The guidance is effective beginning in the Organization’s fiscal year 2019.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 3, 2020, the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Organization’s operating results. However, the related financial impact and duration cannot be reasonably estimated at this time. The Organization has assessed risks and measures have been taken to mitigate any impacts.

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Notes to Financial Statements
December 31, 2018

3. Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Management periodically reviews the Organization's liquid asset needs and adjusts the cash balances as necessary.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31, 2018:

Cash and cash equivalents	\$ 4,990,305
Short-term investments	<u>3,417,242</u>
Total available for general expenditures	<u>\$ 8,407,547</u>

4. Concentrations of Risk

Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash. The Organization maintains cash deposit and transaction accounts with a financial institution and the value, from time to time, exceeds insurable limits under the Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any credit losses on its cash to date as it relates to FDIC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

Revenue Risk

A substantial portion of contributions revenue was received from one major contributor. For the year ended December 31, 2018, one donor accounted for \$14,085,732 of the Organization's total contributions, which represents approximately 99% of the Organization's total revenue, excluding realized and unrealized depreciation on investments in cryptocurrency, for the year ended December 31, 2018.

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Notes to Financial Statements
December 31, 2018

5. Fair Value Measurements

The Organization follows FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

Cryptocurrencies

Cryptocurrencies are carried at their fair value and are revalued to their current market at each reporting date. Fair value is determined based on the price quoted on digital asset market exchange, which is an average of quoted rates from various cryptocurrency exchanges. As such, the Organization classifies its digital currencies as a Level 2 input.

The following table presents the Organization's fair value hierarchy for those assets measured on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Total fair value
Cryptocurrency:				
ZEC	\$ -	\$ 3,380,284	\$ -	\$ 3,380,284
BTC	-	36,958	-	36,958
Total investments in cryptocurrency	\$ -	\$ 3,417,242	\$ -	\$ 3,417,242

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Notes to Financial Statements
December 31, 2018

5. Fair Value Measurements (continued)

Cryptocurrencies (continued)

The loss from cryptocurrency transactions consists of the following for the year ended December 31, 2018:

Realized and unrealized depreciation on investments in cryptocurrency	<u>\$ (5,075,291)</u>
Total depreciation on investments in cryptocurrency	<u><u>\$ (5,075,291)</u></u>

6. Related Party Transactions

Coin Center

The Operations Director of the Organization also serves as the Operations Director of Coin Center, and a Board member of the Organization is the Research Director of Coin Center. Coin Center is a separate 501(c)(4) organization that is established to provide better understanding of cryptocurrency technologies, such as Bitcoin, and to promote a regulatory climate that preserves the freedom to innovate using blockchain technologies.

Note Payable

The note payable consists of amounts loaned by a Board member of the Organization to assist with operating expenses. The Organization does not record imputed interest as the total amount is immaterial to the financial statements taken as a whole. The principal payments are due in ZEC, and are revalued to their current fair market value at each reporting date. Fair value is determined based on the price quoted on digital asset market exchange, which is an average of quoted rates from various cryptocurrency exchanges. As such, the principal payments due on the note as of December 31, 2018 total \$465.

7. Retirement Plan

Effective March 27, 2018, the Organization adopted a Section 401(k) plan for its employees. This plan is available to all eligible employees and permits employee contributions up to limits established by law. The Organization does not make contribution to the plan.

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8. Methods Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include salaries and wages, benefits, payroll taxes, professional services, and other, which are allocated on the basis of estimates of time and effort.

9. Income Taxes

The Organization is exempt from payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. For the year ended December 31, 2018, there was no unrelated business income and, accordingly, no federal or state income taxes have been recorded. Management has evaluated the Organization's tax positions and concluded that the financial statements do not include any uncertain tax positions.