

Zcash Foundation

Financial Statements
and Independent Auditors' Report

December 31, 2019 and 2018

Zcash Foundation

Financial Statements
December 31, 2019 and 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 statements of financial position as of December 31, 2019 and 2018; the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 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.

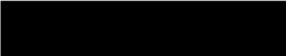
Opinion

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, 2019 and 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 discussed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.




March 25, 2021

Zcash Foundation

Statements of Financial Position December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,126,751	\$ 4,990,305
Investments in digital assets	3,633,756	3,417,242
Prepaid expenses and deposits	79,708	4,670
	<u>7,840,215</u>	<u>8,412,217</u>
Total current assets	7,840,215	8,412,217
Intangible assets, net	889,026	-
	<u>8,729,241</u>	<u>8,412,217</u>
Total assets	<u>\$ 8,729,241</u>	<u>\$ 8,412,217</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 69,988	\$ 36,192
Note payable	-	465
	<u>69,988</u>	<u>36,657</u>
Total liabilities	69,988	36,657
Net Assets		
Without donor restrictions	8,659,253	8,375,560
	<u>8,659,253</u>	<u>8,375,560</u>
Total net assets	8,659,253	8,375,560
	<u>\$ 8,729,241</u>	<u>\$ 8,412,217</u>
Total liabilities and net assets	<u>\$ 8,729,241</u>	<u>\$ 8,412,217</u>

See accompanying notes.

Zcash Foundation

Statements of Activities For the Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenue and Support		
Contributions	\$ 5,537,112	\$ 14,210,732
In-kind contributions	889,026	-
Meetings	52,986	83,165
	<hr/>	<hr/>
Total operating revenue and support	6,479,124	14,293,897
	<hr/>	<hr/>
Expenses		
Program services:		
Community	583,252	550,482
Protocol	625,287	303,501
Research	808,200	-
Science	170,752	31,488
	<hr/>	<hr/>
Total program services	2,187,491	885,471
	<hr/>	<hr/>
Supporting services:		
Management and general	483,888	285,194
Fundraising	-	637
	<hr/>	<hr/>
Total supporting services	483,888	285,831
	<hr/>	<hr/>
Total expenses	2,671,379	1,171,302
	<hr/>	<hr/>
Change in Net Assets from Operations	3,807,745	13,122,595
	<hr/>	<hr/>
Non-Operating Activities		
Net change in unrealized appreciation or depreciation from digital assets	(3,550,398)	(5,075,291)
Interest	26,346	341
	<hr/>	<hr/>
Total non-operating activities	(3,524,052)	(5,074,950)
	<hr/>	<hr/>
Change in Net Assets	283,693	8,047,645
	<hr/>	<hr/>
Net Assets, beginning of year	8,375,560	327,915
	<hr/>	<hr/>
Net Assets, end of year	\$ 8,659,253	\$ 8,375,560
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See accompanying notes.

Zcash Foundation

Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Services						Total Expenses
	Community	Protocol	Research	Science	Total Program Services	Management and General	
Personnel costs	\$ 166,141	\$ 588,648	\$ -	\$ 126,087	\$ 880,876	\$ 224,754	\$ 1,105,630
Consultants	36,000	35,354	-	43,380	114,734	34,168	148,902
Professional fees	-	-	806,915	-	806,915	100,358	907,273
Travel and events	257,745	-	-	-	257,745	-	257,745
Sales and marketing	3,905	-	-	-	3,905	-	3,905
Office expenses	5,040	-	-	-	5,040	4,727	9,767
Postage and printing	-	-	-	-	-	686	686
Insurance	-	-	-	-	-	18,500	18,500
Bank fees	-	-	-	-	-	51,077	51,077
Merchandise	-	-	-	-	-	115	115
Equipment	-	-	-	-	-	7,000	7,000
Grants and sponsorships	113,136	-	-	-	113,136	42,503	155,639
Miscellaneous	1,285	1,285	1,285	1,285	5,140	-	5,140
Total Expenses	\$ 583,252	\$ 625,287	\$ 808,200	\$ 170,752	\$ 2,187,491	\$ 483,888	\$ 2,671,379

See accompanying notes.

Zcash Foundation

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

	Program Services				Total Program Services	Management and General	Fundraising	Total Expenses
	Community	Protocol	Science					
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

Statements of Cash Flows For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 283,693	\$ 8,047,645
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net change in unrealized appreciation or depreciation from digital assets	3,550,398	5,075,291
Donated intangible assets	(889,026)	-
Donated digital assets	(5,544,242)	(14,098,196)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Prepaid expenses and deposits	(75,038)	10,936
Increase in:		
Accounts payable and accrued expenses	33,796	29,932
	(2,640,419)	(934,392)
Net cash used in operating activities		
Cash Flows from Investing Activities		
Distribution of digital assets	426,530	281,578
Proceeds from sales of digital assets	1,625,200	5,324,243
Purchase of digital assets	(274,400)	-
	1,777,330	5,605,821
Net cash provided by investing activities		
Cash Flows from Financing Activities		
Proceeds from note payable	-	327
Repayments of note payable	(465)	(2,592)
	(465)	(2,265)
Net cash used in financing activities		
Net (Decrease) Increase in Cash	(863,554)	4,669,164
Cash and Cash Equivalents, beginning of year	4,990,305	321,141
Cash and Cash Equivalents, end of year	\$ 4,126,751	\$ 4,990,305
Supplementary Disclosure of Cash Flow Information		
Noncash activities:		
Donated intangible assets	\$ 889,026	\$ -
Donated digital assets	\$ 5,544,242	\$ 14,098,196

See accompanying notes.

Zcash Foundation

Notes to Financial Statements
December 31, 2019 and 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, 2019 and 2018.

Change in Accounting Principle

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update provides clarifications and improves the scope and the accounting guidance for contributions received and contributions made; in particular, evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, and determining whether a contribution is conditional.

For the year ended December 31, 2019, the Organization adopted ASU 2018-08, in which the Organization serves as a resource recipient, as required by the ASU, and has elected to defer adoption for transactions in which the Organization serves as a resource provider, as permitted. The ASU has been applied on a modified prospective basis for all agreements that were either not completed as of or entered into after January 1, 2019. The adoption of ASU 2018-08, in which the Organization serves as a resource recipient, had no impact on previously reported net assets. Management is in the process of assessing the impact of the requirements of ASU 2018-08 for transactions in which the Organization serves as a resource provider, and this part of the ASU will be implemented for the year ending December 31, 2020.

Zcash Foundation

Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

For the purpose of the statements of cash flows, the Organization considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase. Excluded from this definition are amounts held for investments.

Investments in Digital Assets

Investments in digital assets are comprised of Zcash cryptocurrency (ZEC), Bitcoin cryptocurrency (BTC), and Ethereum (ETH), and are reported at fair value as determined by digital asset market exchanges. Digital asset transactions are recorded on the trade date. Realized gains and losses from digital asset transactions are determined using the identified cost method. Any change in net unrealized gain or loss is reported in the statements of activities. Commissions and other trading fees are reflected as an adjustment to cost or proceeds at the time of the transaction. As of December 31, 2019 and 2018, the Organization's investments had a fair value of \$3,633,756 and \$3,417,242, respectively.

Intangible Assets

Intangible assets consist of Zcash Brand Intellectual Property ("Zcash Brand IP") that was donated by Electric Coin Company during 2019. The Organization's valuation of the donated fair value of the Zcash Brand IP was based on established techniques that reflect the consideration of a number of factors, including valuations performed by third-party appraisers.

The Organization performs the indefinite-lived intangible asset impairment test annually. In performing the annual qualitative impairment assessment for indefinite-lived intangible assets, the Organization considers various factors in determining if it is more likely than not that the fair values of these indefinite-lived intangible assets are greater than their carrying values. No impairment charges for indefinite-lived assets were recorded in 2019.

In-Kind Contributions

Donated noncash items are recorded as revenue and 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.

Zcash Foundation

Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions

All contributions received by the Organization are nonreciprocal and are recognized as contributions. For contributions, revenue is recognized when a contribution becomes unconditional. The Organization records cryptocurrency pledges at the time of payment, due to high volatility of the cryptocurrency market.

Contributions are reported as restricted support if received with donor or grantor 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 are reported in the accompanying statements of activities as net assets released from restrictions.

Other Revenue

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, 2019 and 2018.

Functional Allocation of Expenses

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

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.

Zcash Foundation

Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$3,905 and \$2,383, respectively, for the years ended December 31, 2019 and 2018.

Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities, and excludes net change in unrealized appreciation or depreciation from digital assets and interests.

Recently Issued and Deferred Accounting Pronouncement

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. With a recent guidance deferral issued in June 2020, this guidance is now effective for the Organization in fiscal year 2020. Management continues to evaluate the potential impact of this update on the Organization's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. With a recent guidance deferral issued in June 2020, this guidance is effective beginning in the Organization's fiscal year 2022.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 25, 2021, 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 that 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
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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 statements of financial position date, comprise the following at December 31:

	2019	2018
Cash and cash equivalents	\$ 4,126,751	\$ 4,990,305
Short-term investments	3,633,756	3,417,242
Total available for general expenditures	<u>\$ 7,760,507</u>	<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 and cash equivalents. The Organization maintains cash deposit and transaction accounts with financial institutions and the values, 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 and cash equivalents 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. Digital assets held are not subject to the protections of FDIC or Securities Investor Protection Corporation member institutions.

Revenue Risk

A substantial portion of contributions revenue was received from one major contributor. For the years ended December 31, 2019 and 2018, one donor accounted for \$5,062,771 and \$14,085,732, respectively, of the Organization's total contributions, which represents approximately 78% and 99%, respectively, of the Organization's total revenue, excluding net change in unrealized appreciation or depreciation from digital assets, for the years ended December 31, 2019 and 2018.

Zcash Foundation

Notes to Financial Statements
December 31, 2019 and 2018

4. Concentrations of Risk (continued)

Digital Assets Risk

Several factors may affect the price of digital assets, including, but not limited to: supply and demand, investors' expectations with respect to the rate of inflation, interest rates, and currency exchange rates or future regulatory measures (if any) that restrict the trading of digital assets or the use of digital assets as a form of payment. There is no assurance that digital assets will maintain their long-term value in terms of purchasing power in the future, or that acceptance of digital asset payments by mainstream retail merchants and commercial businesses will continue to grow.

Digital assets represent a speculative investment and involve a high degree of risk. Prices of digital assets have fluctuated widely for a variety of reasons, including uncertainties in government regulation, and may continue to experience significant price fluctuations.

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.

Digital Assets

Digital assets 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 the 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.

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Notes to Financial Statements
December 31, 2019 and 2018

5. Fair Value Measurements (continued)

Digital Assets (continued)

The following table presents the Organization's fair value hierarchy for those assets measured on a recurring basis as of December 31, 2019:

	Level 1	Level 2	Level 3	Total fair value
Digital assets:				
ZEC	\$ -	\$ 3,366,509	\$ -	\$ 3,366,509
BTC	-	265,566	-	265,566
ETH	-	1,681	-	1,681
Total investments in digital assets	\$ -	\$ 3,633,756	\$ -	\$ 3,633,756

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
Digital assets:				
ZEC	\$ -	\$ 3,380,284	\$ -	\$ 3,380,284
BTC	-	36,958	-	36,958
Total investments in digital assets	\$ -	\$ 3,417,242	\$ -	\$ 3,417,242

The loss from cryptocurrency transactions consists of the following at December 31:

	2019	2018
Net change in unrealized appreciation or depreciation from digital assets	\$ (3,550,398)	\$ (5,075,291)
Total change in unrealized loss from investments in digital assets	\$ (3,550,398)	\$ (5,075,291)

Zcash Foundation

Notes to Financial Statements
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6. Intangible Assets

Indefinite intangible assets consist of Zcash Brand IP and were valued at \$889,026 at December 31, 2019. Zcash Brand IP was donated to the Organization in 2019, and the Organization plans to continue its operations using Zcash Brand IP as it has strong recognition in the marketplace without additional marketing investments. The donated intangible assets were valued by a third-party appraiser using a combination of the market approach and the relief from royalty approach as the most reasonable indication of value for the Zcash Brand IP. The market approach was used to determine a reasonable royalty fee, and the relief from royalty approach was used to determine the value of the Zcash Brand IP.

7. 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 was 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 the 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 totaled \$465. The note payable was paid off as of December 31, 2019.

8. 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 contributions to the plan.

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Notes to Financial Statements
December 31, 2019 and 2018

9. 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.

10. 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 years ended December 31, 2019 and 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.