

Zcash Foundation

Financial Statements
and Independent Auditor's Report

December 31, 2021 and 2020

Zcash Foundation

Financial Statements
December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Zcash Foundation

Opinion

We have audited the accompanying financial statements of Zcash Foundation (“the Organization”), which comprise the statements of financial position as of December 31, 2021 and 2020; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Responsibilities of Management for the Financial Statements (continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia
January 5, 2023

Zcash Foundation

Statements of Financial Position December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 7,948,039	\$ 5,171,125
Prepaid expenses and deposits	65,451	64,625
Intangible assets, net	<u>29,508,045</u>	<u>5,184,831</u>
Total assets	<u>\$ 37,521,535</u>	<u>\$ 10,420,581</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 180,127</u>	<u>\$ 99,477</u>
Total liabilities	<u>180,127</u>	<u>99,477</u>
Net Assets		
Without donor restrictions	22,433,419	9,445,024
With donor restrictions	<u>14,907,989</u>	<u>876,080</u>
Total net assets	<u>37,341,408</u>	<u>10,321,104</u>
Total liabilities and net assets	<u>\$ 37,521,535</u>	<u>\$ 10,420,581</u>

See accompanying notes.

Zcash Foundation

Statement of Activities For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions	\$ 9,838,991	\$ 15,802,412	\$ 25,641,403
Released from restrictions	1,770,503	(1,770,503)	-
Total operating revenue and support	<u>11,609,494</u>	<u>14,031,909</u>	<u>25,641,403</u>
Expenses			
Program services:			
Community	235,067	-	235,067
Protocol	1,315,979	-	1,315,979
Zcash Open Major Grants	1,890,210	-	1,890,210
Science	167,864	-	167,864
Total program services	<u>3,609,120</u>	<u>-</u>	<u>3,609,120</u>
Supporting services:			
Management and general	539,730	-	539,730
Total supporting services	<u>539,730</u>	<u>-</u>	<u>539,730</u>
Total expenses	<u>4,148,850</u>	<u>-</u>	<u>4,148,850</u>
Change in Net Assets from Operations	7,460,644	14,031,909	21,492,553
Non-Operating Activities			
Realized gain on sale of digital assets	5,525,270	-	5,525,270
Interest	2,481	-	2,481
Total non-operating activities	<u>5,527,751</u>	<u>-</u>	<u>5,527,751</u>
Change in Net Assets	12,988,395	14,031,909	27,020,304
Net Assets, beginning of year	<u>9,445,024</u>	<u>876,080</u>	<u>10,321,104</u>
Net Assets, end of year	<u>\$ 22,433,419</u>	<u>\$ 14,907,989</u>	<u>\$ 37,341,408</u>

See accompanying notes.

Zcash Foundation

Statement of Activities For the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions	\$ 3,432,148	\$ 876,080	\$ 4,308,228
Total operating revenue and support	3,432,148	876,080	4,308,228
Expenses			
Program services:			
Community	421,651	-	421,651
Protocol	1,557,435	-	1,557,435
Zcash Open Major Grants	4,548	-	4,548
Science	416,397	-	416,397
Total program services	2,400,031	-	2,400,031
Supporting services:			
Management and general	418,702	-	418,702
Total supporting services	418,702	-	418,702
Total expenses	2,818,733	-	2,818,733
Change in Net Assets from Operations	613,415	876,080	1,489,495
Non-Operating Activities			
Realized gain on sale of digital assets	158,967	-	158,967
Interest	13,389	-	13,389
Total non-operating activities	172,356	-	172,356
Change in Net Assets	785,771	876,080	1,661,851
Net Assets, beginning of year	8,659,253	-	8,659,253
Net Assets, end of year	\$ 9,445,024	\$ 876,080	\$ 10,321,104

See accompanying notes.

Zcash Foundation

Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Services				Total Program Services	Supporting Services	Total Expenses
	Community	Protocol	Zcash Open Major Grants	Science		Management and General	
Personnel costs	\$ 41,819	\$ 499,110	\$ 67,925	\$ 161,766	\$ 770,620	\$ 160,102	\$ 930,722
Consultants	120,399	651,453	73,585	-	845,437	139,573	985,010
Professional fees	10,007	72,000	6,457	5,000	93,464	132,246	225,710
Travel and events	15,883	2,115	1,705	98	19,801	315	20,116
Sales and marketing	440	-	60	-	500	6,611	7,111
Office expenses	5,040	30,826	-	-	35,866	6,329	42,195
Postage and printing	-	-	-	-	-	1,097	1,097
Insurance	-	-	-	-	-	26,017	26,017
Bank fees	-	-	20,725	-	20,725	52,716	73,441
Merchandise	-	100	75	-	175	3,372	3,547
Equipment	1,700	8,350	1,200	1,000	12,250	1,750	14,000
Grants and sponsorships	39,779	52,025	1,718,478	-	1,810,282	-	1,810,282
Miscellaneous	-	-	-	-	-	9,602	9,602
Total Expenses	\$ 235,067	\$ 1,315,979	\$ 1,890,210	\$ 167,864	\$ 3,609,120	\$ 539,730	\$ 4,148,850

See accompanying notes.

Zcash Foundation

Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Services				Total Program Services	Supporting Services	Total Expenses
	Community	Protocol	Zcash Open Major Grants	Science		Management and General	
Personnel costs	\$ 111,372	\$ 996,147	\$ 2,063	\$ 344,615	\$ 1,454,197	\$ 272,718	\$ 1,726,915
Consultants	36,000	91,370	1,000	69,480	197,850	35,953	233,803
Professional fees	155,327	8,300	-	-	163,627	34,336	197,963
Travel and events	45,963	1,927	-	2,302	50,192	91	50,283
Sales and marketing	1,556	-	150	-	1,706	-	1,706
Office expenses	5,040	6,693	-	-	11,733	4,954	16,687
Postage and printing	244	-	-	-	244	952	1,196
Insurance	-	-	-	-	-	21,500	21,500
Bank fees	-	-	1,335	-	1,335	36,641	37,976
Merchandise	-	-	-	-	-	2,151	2,151
Equipment	-	-	-	-	-	9,000	9,000
Grants and sponsorships	66,149	452,998	-	-	519,147	-	519,147
Miscellaneous	-	-	-	-	-	406	406
Total Expenses	\$ 421,651	\$ 1,557,435	\$ 4,548	\$ 416,397	\$ 2,400,031	\$ 418,702	\$ 2,818,733

See accompanying notes.

Zcash Foundation

Statements of Cash Flows For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ 27,020,304	\$ 1,661,851
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized gain on sale of digital assets	(5,525,270)	(158,967)
Donated digital assets	(25,641,403)	(4,308,228)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Prepaid expenses and deposits	(826)	15,083
Increase in:		
Accounts payable and accrued expenses	80,650	29,489
	<u>(4,066,545)</u>	<u>(2,760,772)</u>
Net cash used in operating activities		
Cash Flows from Investing Activities		
Distribution of digital assets	1,502,312	451,265
Proceeds from sales of digital assets	5,595,978	3,490,140
Purchase of digital assets	(254,831)	(136,259)
	<u>6,843,459</u>	<u>3,805,146</u>
Net cash provided by investing activities		
Net Increase in Cash	2,776,914	1,044,374
Cash and Cash Equivalents, beginning of year	<u>5,171,125</u>	<u>4,126,751</u>
Cash and Cash Equivalents, end of year	<u>\$ 7,948,039</u>	<u>\$ 5,171,125</u>
Supplementary Disclosure of Cash Flow Information		
Noncash activity:		
Donated digital assets	<u>\$ 25,641,403</u>	<u>\$ 4,308,228</u>

See accompanying notes.

Zcash Foundation

Notes to Financial Statements
December 31, 2021 and 2020

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 is a public charity that builds and supports privacy infrastructure for the public good. The Organization works on strengthening financial privacy with technology, focused on the Zcash protocol and blockchain. The Organization’s goal is to create tools that help sustain open networks, enabling anyone and everyone to protect their own privacy on their own terms. The essence of privacy itself is being able to choose what is or isn’t shared with others. Privacy comprises both autonomy and consent; it is essential to human dignity and the healthy continuation of civil society.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Organization’s financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 90 days or less at the time of purchase. Excluded from this definition are amounts held for investments.

Zcash Foundation

Notes to Financial Statements
December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

Intangible Assets

Intangible assets consist of digital assets and intellectual property.

Digital assets consist of cryptocurrencies, which are accounted for as indefinite-lived intangible assets. Indefinite-lived assets are recorded at cost or the estimated fair value at the date of gift and are tested for impairment annually or when events or circumstances indicate that the carrying value more likely than not exceeds its fair value. The Organization estimates fair value of its cryptocurrency holdings for purposes of impairment testing taking quoted prices from multiple currency exchanges with active markets near the measurement date. Impairment in the carrying value of digital assets is recorded as an impairment loss in the accompanying statements of activities. There were no impairment losses recognized on digital assets for the years ended December 31, 2021 and 2020.

Gains and losses realized upon the sale of digital assets are also recorded in the accompanying statements of activities. Realized gain on the sale of digital assets was \$5,525,270 and \$158,967 for the years ended December 31, 2021 and 2020, respectively.

Intellectual property consists 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 intellectual property were recorded for the years ended December 31, 2021 and 2020.

Zcash Foundation

Notes to Financial Statements
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2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

Unconditional grants and contributions are recognized as revenue when received or promised and are reported as restricted support if they are 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 reported in the statements of activities as net assets released from restrictions.

Until November 2020, the Organization received contributions from individuals and as a distribution from the Founders Reward. The Founders Reward expired in November 2020 at first Zcash halving, which occurs every four years. Block rewards were halved to 3.125 and a new development fund was implemented by the Zcash community. The new structure stipulates that 80% of Zcash issuance continues to be distributed to miners, while 20% is allocated to Zcash development funding. Of this 20%, the Organization will receive 5% for general support of its operations and 8% will be restricted for Zcash Open Major Grants (ZOMG) fund, and the rest 7% of the total reward will be allocated to Electric Coin Company (ECC).

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, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs are expensed as incurred. There were no advertising costs for the years ended December 31, 2021 and 2020.

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 realized gain on sale of digital assets and interests.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 5, 2023, the date the financial statements were available to be issued.

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 and cash equivalent 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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 7,948,039	\$ 5,171,125
Digital assets	28,619,019	4,295,805
Less: net assets with donor restrictions	<u>(14,907,989)</u>	<u>(876,080)</u>
Total available for general expenditures	<u>\$ 21,659,069</u>	<u>\$ 8,590,850</u>

Zcash Foundation

Notes to Financial Statements
December 31, 2021 and 2020

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

For the year ended December 31, 2020, one donor accounted for \$2,778,201 of the Organization's total contributions revenue, which represents approximately 64% of the Organization's total operating revenue and support for the year ended December 31, 2020. There was no revenue concentration in donors for the year ended December 31, 2021.

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.

Zcash Foundation

Notes to Financial Statements
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5. Intangible Assets

Digital Assets

Digital assets consist of Zcash cryptocurrency (ZEC), Bitcoin cryptocurrency (BTC), Ethereum (ETH), and USD Coin (USDC), which are accounted for as indefinite-lived intangible assets. The following tables present the rollforward of digital assets carried at cost on the statements of financial position for the years ended December 31, 2021 and 2020.

Digital assets were as follows for the year ended December 31, 2021:

	<u>Units</u>	<u>Cost</u>
ZEC balance, January 1	\$ 125,219	\$ 3,893,980
Gifts	169,868	25,581,403
Purchases	12	2,450
Sales	(26,641)	(1,253,463)
Distribution	(24,129)	(316,667)
	<u>\$ 244,329</u>	<u>\$ 27,907,703</u>
ZEC balance, December 31		
BTC balance, January 1	\$ 51	\$ 400,144
Purchases	5	249,491
	<u>\$ 56</u>	<u>\$ 649,635</u>
BTC balance, December 31		
ETH balance, January 1	\$ 13	\$ 1,681
	<u>\$ 13</u>	<u>\$ 1,681</u>
ETH balance, December 31		
USDC balance, January 1	\$ -	\$ -
Gifts	60,000	60,000
	<u>\$ 60,000</u>	<u>\$ 60,000</u>
USDC balance, December 31		

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Notes to Financial Statements
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5. Intangible Assets (continued)

Digital Assets (continued)

Digital assets were as follows for the year ended December 31, 2020:

	<u>Units</u>	<u>Cost</u>
ZEC balance, January 1	\$ 122,641	\$ 3,366,509
Gifts	72,431	4,308,228
Purchases	32	997
Sales	(55,261)	(3,489,456)
Distribution	(14,624)	(292,298)
ZEC balance, December 31	<u>\$ 125,219</u>	<u>\$ 3,893,980</u>
BTC balance, January 1	\$ 37	\$ 265,566
Purchases	15	135,262
Sales	(1)	(684)
BTC balance, December 31	<u>\$ 51</u>	<u>\$ 400,144</u>
ETH balance, January 1	\$ 13	\$ 1,681
ETH balance, December 31	<u>\$ 13</u>	<u>\$ 1,681</u>

Intellectual Property

Intellectual property consists of Zcash Brand IP and was valued at \$889,026 at both December 31, 2021 and 2020. 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.

Zcash Foundation

Notes to Financial Statements
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6. Net Assets With Donor Restrictions

Contributions to the ZOMG fund are restricted for privacy-focused blockchain technology projects that meet the needs of a rapidly-accelerating Zcash ecosystem. The key areas include core infrastructure, social impact, improved developer tooling, security, and access to education, integrations, research, and more. Net assets with donor restrictions were restricted for ZOMG fund and totaled \$14,907,989 and \$876,080 at December 31, 2021 and 2020, respectively.

7. Related Party Transactions

Coin Center

Antonie Hodge, who is the Operations Director at Coin Center, was the Operations Director at the Organization until July 2020. During August 2020 through February 2021, she served as Interim Director of the Organization. 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.

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.

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.

Zcash Foundation

Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020, 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.