

PayPal *Giving Fund*
and Subsidiary

**Consolidated Financial Statements
December 31, 2017 and 2016**

**Together with
Independent Auditors' Report**

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Table of Contents

December 31, 2017

| | PAGE |
|---|------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| CONSOLIDATED FINANCIAL STATEMENTS | |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Activities and Changes in Net Assets | 4 |
| Consolidated Statements of Functional Expenses | 5-6 |
| Consolidated Statements of Cash Flows | 7 |
| Notes to Consolidated Financial Statements | 8-14 |



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
PayPal Charitable Giving Fund and Subsidiary
Washington, DC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of PayPal Charitable Giving Fund and Subsidiary ("PPGF" or the "Organization"), a Delaware public benefit corporation, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
PayPal Charitable Giving Fund and Subsidiary
Washington, D.C

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PPGF as of December 31, 2017 and 2016, 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.

Robert Lee & Associates, LLP

San Jose, California
May 30, 2018

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY
Consolidated Statements of Financial Position

| | December 31, | |
|---------------------------------------|--|---------------|
| | 2017 | 2016 |
| | <u>ASSETS</u> | |
| Cash and cash equivalents | \$ 17,659,784 | \$ 12,991,755 |
| Accounts receivable | 188,799 | 55,018 |
| Prepaid expenses | - | 13,043 |
| | | |
| Total assets | \$ 17,848,583 | \$ 13,059,816 |
| | <u>LIABILITIES AND NET ASSETS</u> | |
| Grants payable, net | \$ 15,522,158 | \$ 11,114,492 |
| Accounts payable and accrued expenses | 419,049 | 306,158 |
| Deferred revenue | 204,850 | 175,576 |
| Other liabilities | 14,042 | 22,123 |
| | | |
| Total liabilities | 16,160,099 | 11,618,349 |
| Contingencies | | |
| Net assets, unrestricted | 1,688,484 | 1,441,467 |
| Total liabilities and net assets | \$ 17,848,583 | \$ 13,059,816 |

The accompanying notes are an integral part of these consolidated financial statements

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY
Consolidated Statements of Activities and Changes in Net Assets

| | For the Year Ended | |
|---|--------------------|---------------|
| | December | |
| | 2017 | 2016 |
| Revenues and support: | | |
| Contributions | \$ 105,013,258 | \$ 40,770,527 |
| Program service revenue | 1,834,939 | 1,997,089 |
| In-kind contributions | 2,426,555 | 1,591,153 |
| Miscellaneous income | 7,495 | 29,873 |
| | 109,282,247 | 44,388,642 |
| Expenses: | | |
| Program services | 106,809,004 | 43,065,783 |
| General and management | 1,746,568 | 788,914 |
| Fundraising | 521,686 | 319,671 |
| | 109,077,258 | 44,174,368 |
| Change in unrestricted net assets from operations | 204,989 | 214,274 |
| Foreign currency translation adjustment | 42,028 | (180,920) |
| Change in unrestricted net assets | 247,017 | 33,354 |
| Net assets, beginning of year | 1,441,467 | 1,408,113 |
| Net assets, end of year | \$ 1,688,484 | \$ 1,441,467 |

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Consolidated Statements of Functional Expenses

For the Year Ended December 31, 2017

| | <u>Program services</u> | <u>General and management</u> | <u>Fundraising</u> | <u>Total expenses</u> |
|--------------------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------|
| Expenses: | | | | |
| Grants | \$ 102,400,417 | \$ - | \$ - | \$ 102,400,417 |
| In-kind expenses | 709,450 | 1,415,845 | 301,261 | 2,426,556 |
| Salaries, wages and related expenses | 633,442 | 212,076 | 111,638 | 957,156 |
| Professional fees | 294,070 | 100,470 | - | 394,540 |
| Bank and service fees | 2,633,136 | - | - | 2,633,136 |
| Marketing | - | - | 59,965 | 59,965 |
| Miscellaneous | 20,437 | 448 | 48,822 | 69,707 |
| Insurance | - | 11,465 | - | 11,465 |
| Bad debt | 62,039 | - | - | 62,039 |
| Travel | 48,603 | 6,264 | - | 54,867 |
| Staff development | 7,410 | - | - | 7,410 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total expenses | \$ <u>106,809,004</u> | \$ <u>1,746,568</u> | \$ <u>521,686</u> | \$ <u>109,077,258</u> |

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Consolidated Statements of Functional Expenses (continued)

For the Year Ended December 31, 2016

| | <u>Program services</u> | <u>General and management</u> | <u>Fundraising</u> | <u>Total expenses</u> |
|--------------------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------|
| Expenses: | | | | |
| Grants | \$ 40,601,645 | \$ - | \$ - | \$ 40,601,645 |
| In-kind expenses | 1,230,909 | 325,251 | 26,855 | 1,583,015 |
| Salaries, wages and related expenses | 670,987 | 324,542 | 111,111 | 1,106,640 |
| Professional fees | 279,817 | 64,703 | - | 344,520 |
| Bank and service fees | 161,461 | - | - | 161,461 |
| Marketing | - | - | 130,854 | 130,854 |
| Miscellaneous | 35,726 | 444 | 50,851 | 87,021 |
| Insurance | - | 73,974 | - | 73,974 |
| Bad debt | 36,787 | - | - | 36,787 |
| Travel | 32,383 | - | - | 32,383 |
| Staff development | 16,068 | - | - | 16,068 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total expenses | \$ <u>43,065,783</u> | \$ <u>788,914</u> | \$ <u>319,671</u> | \$ <u>44,174,368</u> |

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY
Consolidated Statements of Cash Flows

| | For the Year Ended December 31, | |
|---|------------------------------------|---------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 247,017 | \$ 33,354 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (133,781) | 214,978 |
| Prepaid expenses | 13,043 | 9,695 |
| Grants payable | 4,407,666 | 6,005,054 |
| Accounts payable and accrued expenses | 112,891 | 194,155 |
| Deferred revenues | 29,274 | (1,624,424) |
| Other liabilities | (8,081) | (25,704) |
| | 4,668,029 | 4,807,108 |
| Net cash provided by operating activities | | |
| Increase in cash and cash equivalents | 4,668,029 | 4,807,108 |
| Cash and cash equivalents, beginning of year | 12,991,755 | 8,184,647 |
| Cash and cash equivalents, end of year | \$ 17,659,784 | \$ 12,991,755 |

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2017

Note 1 - Organization and operations:

PayPal Charitable Giving Fund (“PPGF” or the “Organization”) was organized on January 28, 2011. PPGF is a not-for-profit donor advised fund incorporated under the laws of the state of Delaware. The primary purpose of PPGF is to enable people to give to charity on PayPal, eBay, GoFundMe, Humble Bundle and other online platforms. The Organization receives funds donated through these platforms and seeks to grant them to charities recommended by donors.

PPGF operates the charity portion of the Donate with PayPal, eBay for Charity, StubHub, Humble Bundle and GoFundMe charity programs in the United States (US) as PayPal Giving Fund (“PPGF US”). In the United Kingdom (UK) through PayPal Giving Fund UK (“PPGF UK”), a registered UK charity (Charity #110538), PPGF operates similar charity programs for Donate with PayPal, eBay for Charity, StubHub and Humble Bundle charity programs in. These programs allow online customers to donate to a charity of their choice using eBay, PayPal, Humble Bundle and GoFundMe programs.

The Organization has received a determination letter from the Internal Revenue Service that it is exempt from federal taxation under Section 501(c)(3) of the US Internal Revenue Code.

Note 2 - Summary of significant accounting policies:

Principles of consolidation - The accompanying consolidated financial statements include the financial statements of PPGF US and its controlled subsidiary, PPGF UK. All significant inter-organizational accounts and transactions have been eliminated.

Basis of accounting - The consolidated financial statements have been prepared on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of presentation - Consolidated financial statement presentation is in accordance with generally accepted accounting principles in the United States of America (“GAAP”), which requires the Organization to report information regarding its financial position and activities in three classes of net assets:

- *Unrestricted net assets* are available to support all activities of the Organization without restrictions and include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* represent contributions whose use is limited to donor-imposed stipulations that expire through the passage of time or other restrictions and for which the applicable restriction was not met as of the end of the current fiscal period. The Organization has no temporarily restricted net assets.
- *Permanently restricted net assets* are restricted by the donor for investment in perpetuity, such as endowments. The income from such invested assets is available to support the activities of the Organization. The Organization has no permanently restricted net assets.

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2017

Note 2 - Summary of significant accounting policies (continued):

Basis of presentation (continued) - For the years ended December 31, 2017 and 2016, the Organization did not have any temporarily or permanently restricted net assets.

Use of estimates - The preparation of consolidated financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions or condition.

Donor advised fund - The Organization enables donors to identify opportunities aligned with their values and charitable interests. Donors make donations to the Organization and provide recommended grant recipients at the time of donation. The Organization conducts due diligence on the charities recommended by donors before approving them to receive a grant. A small portion of recommended charities may not be approved subject to the Organization's Nonprofit Certification and Donation Delivery Policies, in which case the Organization will reach out to the donor for an alternative recommendation whenever possible. The Organization's policies and disclosures are compatible with the donor advised fund model, and it has elected to be treated as such for tax purposes. Substantially all donations received by the Organization are now considered donor advised funds.

Revenue recognition - All contributions are considered available for PPGF's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

Conditional promises to give, if any, are not included as support until the conditions are substantially met. PPGF did not have any conditional promises to give for the years ended December 31, 2017 and 2016.

Contributions consist of funds contributed to PPGF for redistribution to various charities through PPGF partner programs with PayPal Inc., eBay Inc., Humble Bundle, GoFundMe, and StubHub. These funds are recognized as unrestricted funds when a contribution is made, as PPGF has variance power over the contributions. The Organization recognizes an allowance for estimated returns. For the years ended December 31, 2017 and 2016, the allowance for estimated returns was \$150,000.

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2017

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition (continued) - Revenues received under contract with PayPal Inc., eBay Inc., Humble Bundle, and StubHub are recognized as program service revenues as services are provided regardless of the timing of cash receipts. PPGF records support over the support period covered by the contract. In the event the support is tied to performance such as processing disaster donations, such support is recognized in the period of performance. If funds are received for future services, the amounts are recognized as deferred revenue and recognized as revenue when services are provided. Deferred revenues are for eBay Inc. and PayPal Inc. program service revenue received in advance.

Donated materials and services - Contributed services are recognized at fair value if the services received (a) create or enhance long-lived 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. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying consolidated financial statements as in-kind contributions are offset by like amounts included in the related functional expense category. These contributions in-kind are not reflected in the consolidated financial statements since these services do not meet the criteria for recognition.

Functional expense allocations - The costs of providing the various program and supporting services have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated, based on estimates of time, space, and other factors, among the classifications.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market funds. The Organization considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. The carrying amount in the Consolidated Statement of Financial Position approximates fair value.

Accounts receivable - Accounts receivable primarily consists of taxes recoverable (see Note 3) and program service revenue receivable.

Prepaid expenses - Prepaid expenses consist of prepaid insurance for medical benefits and director and officer liability insurance and various other insurance.

Grants and grants payable - Grants are made in accordance with the Organization's mission as recommended by donors in conjunction with donor advised funds. All grants payable at December 31, 2017 and 2016 are expected to be paid in the following year. The Organization recognizes an allowance for estimated refunds. For the years ended December 31, 2017 and 2016, the allowance for estimated returns was \$150,000.

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2017

Note 2 - Summary of significant accounting policies (continued):

Concentration of credit risk - Financial instruments that potentially subject the Organization to credit risk consist primarily of cash and cash equivalents. The Organization maintains cash and cash equivalents with commercial banks and other major financial institutions in the United States of America and in the United Kingdom. Cash equivalents include overnight investments and money market funds. Deposits, at times, might exceed Federal Deposit Insurance Corporation (“FDIC”) limits in the United States and Deposit Insurance limits in the United Kingdom. It is the Organization’s opinion that it is not exposed to any significant credit risks.

Concentration of funding - PPGF maintains service contracts with PayPal Inc., eBay Inc, Humble Bundle, and StubHub, which pay PPGF fees for its services.

Concentration of contributions - For the years ended December 31, 2017 and 2016, 22% and 30% of total contributions were donated from one donor.

Fair value of financial instruments - Financial instruments included in PPGF’s Consolidated Statements of Financial Position as of December 31, 2017 and 2016 include cash and cash equivalents, accounts receivable, prepaid expenses, grants payable, accounts payable and accrued expenses and other liabilities. For cash and cash equivalents, accounts receivable, prepaid expense, accounts payable and accrued expenses and other liabilities the carrying amount approximates fair value due to its short maturity. Grants payable are reflected in the accompanying Consolidated Statements of Financial Position at their estimated fair values using methodologies described above.

Foreign operations and currency translation – PPGF US is the sole member of PPGF UK which has operations in the United Kingdom. The consolidated financial statements of the Organization have been translated into US dollars. All consolidated financial statements have been translated using the exchange rate at the Consolidated Statements of Financial Position date. Changes in accumulated translation adjustments are reported in the Consolidated Statements of Activities and Changes in Net Assets. The amount of accumulated translation adjustments are a separate line item on the Consolidated Statements of Activities and Changes in Net Assets. The changes in accumulated translation adjustments for the years ended December 31, 2017 and 2016 are as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| Balance at beginning of year | \$ (397,602) | \$ (216,682) |
| Foreign currency translation loss | <u>42,028</u> | <u>(180,920)</u> |
| Balance at end of year | <u>\$ (355,574)</u> | <u>\$ (397,602)</u> |

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2017

Note 2 - Summary of significant accounting policies (continued):

Accounting for uncertainty in income taxes - PPGF evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position for all uncertain tax positions in the aggregate could differ from the amount recognized. As of December 31, 2017 and 2016, management did not identify any uncertain tax positions.

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction. The tax years that remain subject to potential examination for the U.S. federal jurisdiction are December 31, 2014 and forward.

Recent accounting pronouncements - In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-14 "Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities." The ASU is intended to improve identified issues about the current financial reporting for Not-for-Profits. This ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted. The Organization does not expect the adoption of this ASU to have a material impact on the financial statements.

Subsequent events - Subsequent events are evaluated through the date of the independent auditors' report, which is the date the consolidated financial statements were available to be issued and it had been determined that no material subsequent events require an estimate to be recorded or disclosed as of December 31, 2017. See Note 6.

Note 3 - Taxation recoverable:

PPGF UK enables tax effective donations ("Gift Aid") by UK donors to their designated charities. Gift Aid allows donors who are subject to UK income tax to complete a simple, short declaration that they are a UK taxpayer. All donations that the donor makes to the charity after making a declaration are treated as being made after deduction of income tax at the basic rate (25% in 2017 and 2016), and the charity can reclaim the basic rate income tax paid on the gift from HM Revenue & Customs ("HMRC"). PPGF claims tax relief from HMRC for Gift Aid donations. These funds are accrued as identified. Accrued amounts are reversed when submitted to HMRC for payment. At December 31, 2017 and 2016, approximately \$25,000 and \$23,000, respectively, was accrued, all of which is due in less than one year.

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2017

Note 4 - Retirement plans:

PPGF provides a 401k plan (the “Plan”) for PPGF US employees. Under the plan, PPGF matches 50% of employee contributions to the Plan up to 4% of each employee’s annual compensation, as defined by the plan agreement. PPGF paid approximately \$14,000 and \$19,000, respectively, of matching contributions to the Plan for the years ended December 31, 2017 and 2016.

PPGF also provides a retirement plan for employees of PPGF UK. Under this retirement plan, PPGF contributes 7.5% of each employee’s annual compensation, as defined by the retirement plan agreement. PPGF paid approximately \$41,000 and \$38,000, respectively, in the form of contributions to the retirement plan for the years ended December 31, 2017 and 2016.

Note 5 - Related-party transactions:

PPGF board members include PayPal Inc. employees and independent directors. PayPal Inc. has entered into a service and license agreement with PPGF. The contract between the parties is valued at fair market value and such contracts are reviewed and approved by disinterested directors to avoid a real or perceived conflict of interest.

In addition, for the year ended December 31, 2017 and 2016, PPGF received approximately \$2,427,000 and \$1,591,000 for contributed office expenses, facilities, legal services, and IT and administrative services, respectively. In 2017 and 2016 this amount was received fully from PayPal Inc. The Organization would have paid for these expenses if they had not been contributed.

For the years ended December 31, 2017 and 2016, PPGF received approximately \$1,290,000 and \$1,590,000 of program service revenue from PayPal Inc. At December 31, 2017, there was an outstanding receivable from PayPal Inc. of approximately \$82,000 which is included in accounts receivable in the Consolidated Statement of Financial Position. There were no outstanding receivables from PayPal Inc. at December 31, 2016.

Note 6 - Contingency:

On February 28, 2017, a putative class action lawsuit was filed in the U.S. District Court for the Northern District of Illinois captioned *Friends for Health: Supporting the North Shore Health Center and Terry Kass v. PayPal, Inc. and PayPal Charitable Giving Fund*, Case No. 17-CV-1542. The lawsuit names PayPal and PPGF as defendants and asserts claims for violations of the Lanham Act and D.C. Consumer Protection Procedures Act, and claims for conversion, unjust enrichment, and for an accounting based on certain alleged practices by PPGF and PayPal. The lawsuit seeks declaratory, injunctive, and monetary relief. On May 8, 2017, the defendants filed a motion to dismiss the lawsuit for lack of subject matter jurisdiction.

PAYPAL CHARITABLE GIVING FUND AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2017

Note 6 – Contingency (continued):

The defendants withdrew this motion in October 2017, anticipating the filing of an amended complaint in the case. On December 15, 2017, the plaintiffs filed an amended complaint, which added four additional charities as plaintiffs in the case and advanced similar and some additional claims. On January 23, 2018, defendants filed a motion to stay the litigation and compel individual arbitration of plaintiffs' claims pursuant to the arbitration provision in the PayPal User Agreement. Plaintiffs filed oppositions to the motion and defendants have, in turn, filed reply briefs supporting the motion. The timing of a ruling on the motion is unclear at this time. A status conference with the court is scheduled for June 7, 2018. PayPal and PPGF intend to continue defending the action vigorously. Given the inherent uncertainties involved in litigation, it is not yet possible to assess the probability or potential liability, if any, of the future outcome.