

SCRATCH FOUNDATION

FINANCIAL STATEMENTS

December 31, 2019 and 2018

With Independent Auditor's Report

SCRATCH FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Scratch Foundation

We have audited the accompanying financial statements of Scratch Foundation, which comprise the statements of financial position as of December 31, 2019 and 2018, and 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 Scratch Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
June 1, 2020

SCRATCH FOUNDATION
Statements of Financial Position
December 31, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 6,677,298	\$ 3,548,998
Contributions receivable	386,747	1,552,275
Prepaid expenses and other assets	<u>6,259</u>	<u>10,106</u>
Total current assets	7,070,304	5,111,379
Property and equipment, net	80,485	2,204
Security deposit	150,000	-
Contributions receivable, net of current portion	<u>285,316</u>	<u>-</u>
Total assets	<u>\$ 7,586,105</u>	<u>\$ 5,113,583</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ <u>102,534</u>	\$ <u>46,608</u>
Total current liabilities	102,534	46,608
Deferred rent	<u>54,081</u>	<u>-</u>
Total liabilities	<u>156,615</u>	<u>46,608</u>
Net assets		
Without donor restrictions	6,907,206	4,516,975
With donor restrictions	<u>522,284</u>	<u>550,000</u>
Total net assets	<u>7,429,490</u>	<u>5,066,975</u>
Total liabilities and net assets	<u>\$ 7,586,105</u>	<u>\$ 5,113,583</u>

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

SCRATCH FOUNDATION

Statements of Activities

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Support and revenue without donor restrictions		
Contributions and grants	\$ 2,459,430	\$ 2,694,055
Special events (net of direct expenses of \$702,881 in 2019 and \$253,662 in 2018)	735,767	1,130,232
Retail revenue	8,565	22,985
Other income	95,046	26,388
Net assets released from restrictions for operations	<u>711,371</u>	<u>300,000</u>
Total support and revenue without donor restrictions	<u>4,010,179</u>	<u>4,173,660</u>
Expenses		
Program service		
Grants awarded	436,839	550,000
Cost of sales	15,596	29,991
Other program expenses	<u>683,332</u>	<u>230,371</u>
Total program service expenses	1,135,767	810,362
Support services		
Fundraising	260,077	211,768
Management and general	<u>224,104</u>	<u>31,659</u>
Total expenses	<u>1,619,948</u>	<u>1,053,789</u>
Increase in net assets without donor restrictions	<u>2,390,231</u>	<u>3,119,871</u>
Net assets with donor restrictions		
Contributions	683,655	300,000
Net assets released from restrictions for operations	<u>(711,371)</u>	<u>(300,000)</u>
Change in net assets with donor restrictions	<u>(27,716)</u>	<u>-</u>
Increase in net assets	2,362,515	3,119,871
Net assets, beginning of year	<u>5,066,975</u>	<u>1,947,104</u>
Net assets, end of year	<u>\$ 7,429,490</u>	<u>\$ 5,066,975</u>

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

SCRATCH FOUNDATION

Statements of Functional Expenses

Years Ended December 31, 2019 and 2018

	<u>2019</u>				<u>2018</u>			
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants	\$ 436,839	\$ 3,200	\$ 2,700	\$ 442,739	\$ 550,000	\$ -	\$ -	\$ 550,000
Salaries	59,400	41,311	34,856	135,567	92,414	18,032	114,954	225,400
Payroll taxes and other	12,279	9,584	8,086	29,949	11,101	2,166	13,809	27,076
Contract services	431,193	87,105	73,495	591,793	55,528	5,018	31,988	92,534
Facilities and equipment	53,818	40,830	34,450	129,098	10,086	1,968	12,546	24,600
Travel, conferences and seminars	78,455	7,890	6,657	93,002	38,560	152	971	39,683
Cost of sales	15,596	400	337	16,333	29,991	-	-	29,991
Computer expenses	15,904	12,413	10,474	38,791	-	-	-	-
Other	29,995	19,585	87,515	137,095	22,085	4,206	36,757	63,048
Depreciation and amortization	<u>2,288</u>	<u>1,786</u>	<u>1,507</u>	<u>5,581</u>	<u>597</u>	<u>117</u>	<u>743</u>	<u>1,457</u>
Total expenses	<u>\$ 1,135,767</u>	<u>\$ 224,104</u>	<u>\$ 260,077</u>	<u>\$ 1,619,948</u>	<u>\$ 810,362</u>	<u>\$ 31,659</u>	<u>\$ 211,768</u>	<u>\$ 1,053,789</u>

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

SCRATCH FOUNDATION

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Cash received from grantors, contributors and other	\$ 5,452,177	\$ 3,441,778
Cash received from retail store operations	8,565	22,985
Cash paid to grantees, employees, and vendors	(2,082,984)	(1,266,153)
Cash paid for inventory and retail store operations	<u>(15,596)</u>	<u>(28,894)</u>
Net cash provided by operating activities	<u>3,362,162</u>	<u>2,169,716</u>
Cash flows from investing activities		
Purchases of property, equipment, and logo	(83,862)	(1,515)
Payment of security deposits	<u>(150,000)</u>	<u>-</u>
Net cash used by investing activities	<u>(233,862)</u>	<u>(1,515)</u>
Net increase in cash and cash equivalents	3,128,300	2,168,201
Cash and cash equivalents, beginning of year	<u>3,548,998</u>	<u>1,380,797</u>
Cash and cash equivalents, end of year	<u>\$ 6,677,298</u>	<u>\$ 3,548,998</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Increase in net assets	\$ 2,362,515	\$ 3,119,871
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	5,581	1,457
(Increase) decrease in		
Contributions receivable	880,212	(978,962)
Prepaid expenses and other assets	3,847	17,403
Increase (decrease) in		
Accounts payable and accrued expenses	55,926	10,947
Deferred rent	54,081	-
Deferred revenue	<u>-</u>	<u>(1,000)</u>
Net cash provided by operating activities	<u>\$ 3,362,162</u>	<u>\$ 2,169,716</u>

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

SCRATCH FOUNDATION

Notes to Financial Statements

December 31, 2019 and 2018

Nature of Activities

Scratch Foundation (the Foundation) is a nonprofit organization that supports the further development and dissemination of Scratch, a programming language developed at the Massachusetts Institute of Technology (MIT) Media Lab on MIT's campus. The Foundation's primary programmatic purpose of furthering the development and dissemination of Scratch is supported by raising funds for the Scratch project and communicating the value of creative coding. This includes hosting events, developing corporate partnerships, sharing information via communications efforts, and cultivating new and existing donors. The Foundation was incorporated in Delaware in 2013.

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Statement Presentation

Net assets and revenues, expenses, gains and losses are classified as follows based on existence or absence of donor-imposed restrictions:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These Foundation net assets may be used at the discretion of the Foundation's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Foundation does not currently have any net assets to be maintained in perpetuity. Net assets with donor restrictions at December 31, 2019 consisted of \$138,629 to be used for outreach, teacher professional development, and operations in conjunction with a computer science project piloted with Chicago Public Schools, as well as \$390,139 restricted for future time periods. Net assets with donor restrictions at December 31, 2018 consisted of \$300,000 to be used for outreach, teacher professional development, and operations in conjunction with a computer science project piloted with Chicago Public Schools, as well as \$250,000 for the development of Scratch 3.0.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

SCRATCH FOUNDATION
Notes to Financial Statements
December 31, 2019 and 2018

Income Taxes

The Internal Revenue Service has determined that the Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been reflected in these financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

The Foundation maintains its cash in bank deposit accounts at amounts within federally insured limits. The Foundation has not experienced any losses in such accounts.

Promises to Give

Unconditional promises to give are recorded at their fair value as contributions receivable and revenue in the year the pledges are made. Unconditional promises are those for which verifiable evidence exists that a legally binding promise to give has been made.

Contributions receivable represent written promises to give as well as donations made via online donation platforms for which payments have not been received by the Foundation. The Foundation considers all contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. Contributions subject to donor-imposed stipulations are reported as support with donor restrictions and reclassified to net assets without donor restrictions when the restriction is satisfied. Contributions to be received beyond one year from the statement of financial position date are reduced by a discount rate, which is commensurate with the risk involved, to reflect the present value of the future payments to be received.

Property and Equipment

Property and equipment are recorded at cost. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments greater than \$500 are capitalized. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets, generally three years.

Functional Expense Allocations

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Foundation. Expenses are allocated based on estimates of the time and effort spent by staff.

SCRATCH FOUNDATION
Notes to Financial Statements
December 31, 2019 and 2018

2. Availability and Liquidity of Financial Assets

As of December 31, 2019, the Foundation had working capital of \$6,967,770 and average days (based on normal expenditures) of cash on hand of \$1,510.

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash	\$ 6,677,298	\$ 3,548,998
Contributions receivable, without donor restriction	<u>386,747</u>	<u>1,002,275</u>
Total current financial assets	7,064,045	5,101,273
Less amounts not available to be used within one year		
Net assets with donor restrictions, held in cash	<u>138,629</u>	<u>-</u>
Financial assets available to meet general expenditures within one year	<u>\$ 6,925,416</u>	<u>\$ 5,101,273</u>

The Foundation's goal is generally to maintain financial assets to meet one year of operating expenses.

3. Property and Equipment

Components of property and equipment include the following as of December 31:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 61,038	\$ 6,510
Computer equipment	<u>29,333</u>	<u>-</u>
Total	90,371	6,510
Less accumulated depreciation and amortization	<u>(9,886)</u>	<u>(4,306)</u>
Property and equipment, net	<u>\$ 80,485</u>	<u>\$ 2,204</u>

SCRATCH FOUNDATION
Notes to Financial Statements
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4. Contributions Receivable

Contributions receivable consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Contributions for		
Unrestricted purposes	\$ 288,408	\$ 1,002,275
Unrestricted purposes, time restriction	400,000	-
Specific purposes	-	550,000
Contributions receivable, gross	<u>688,408</u>	<u>1,552,275</u>
Less present value discount of 1.69% at December 31, 2019	<u>(16,345)</u>	<u>-</u>
Contributions receivable, net	672,063	1,552,275
Less contributions receivable, current portion	<u>386,747</u>	<u>1,552,275</u>
Contributions receivable, net of current portion	<u>\$ 285,316</u>	<u>\$ -</u>

Contributions are due as follows at December 31:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 386,747	\$ 1,552,275
One to five years	<u>285,316</u>	<u>-</u>
Contributions receivable, gross	<u>\$ 672,063</u>	<u>\$ 1,552,275</u>

5. Concentration of Risk

Revenue and support of the Foundation was derived from the following:

	<u>2019</u>	<u>2018</u>
Siegel Family Endowment, Inc.	34 %	34 %
Google, Inc.	21	23
Other	<u>45</u>	<u>43</u>
	<u>100 %</u>	<u>100 %</u>

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Notes to Financial Statements
December 31, 2019 and 2018

6. Related Party Transactions

The Foundation's president and Board chair is employed by a university which receives substantial contributions from the Foundation. The Foundation contributed \$132,739 and \$250,000 to the university for the years ended December 31, 2019 and 2018, respectively.

The Foundation has an administrative services agreement with an entity that provides bookkeeping, accounting, and other administrative services. The vice chair of the Foundation is the co-founder and co-chairman of this entity. The entity provided \$40,000 and \$100,000 in support to the Foundation during the years ended December 31, 2019 and 2018, respectively. Fees paid to this entity for services provided during the years ended December 31, 2019 and 2018 were \$74,206 and \$46,161, respectively.

The vice chair of the Foundation is also chairman of a private foundation, which, during the years ended December 31, 2019 and 2018, provided \$1,600,000 and \$1,500,000, respectively, in support to the Foundation. Significant decreases in the level of funding from this contributor, absent increased contributions from others, could have an adverse effect on the Foundation's programs.

7. Lease Commitments

During the year ended December 31, 2019, the Foundation entered into a new operating lease for office space which expires November 30, 2025. Based on the terms of the lease, the monthly base rent is \$33,456 in the first year of the lease with a 2.6% annual increase thereafter. Expense under this lease was approximately \$33,000 in 2019.

Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 402,386
2021	413,370
2022	424,354
2023	435,338
Thereafter	<u>864,680</u>
Total	\$ <u>2,540,128</u>

8. Subsequent Events

For financial reporting purposes, subsequent events have been evaluated by management through June 1, 2020, which is the date the financial statements were available to be issued.

SCRATCH FOUNDATION

Notes to Financial Statements

December 31, 2019 and 2018

Since 2007, the Scratch project has been operating within the Lifelong Kindergarten Group at the MIT Media Lab. In 2020, the Scratch project, its related staff and operations will transition from MIT to the Foundation. As part of this transition, the Foundation now leases office space outside of the MIT Media Lab to accommodate the influx of staff. The transition is expected to be complete by the end of 2020.

On April 7, 2020, the Foundation applied, and was subsequently approved, for a loan under the Payroll Protection Provision of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan amount is \$175,163, which was received by the Foundation on April 30, 2020, and substantially the entire balance of the loan may be forgiven if the Foundation meets certain requirements as defined in the Act. Any outstanding balance not forgiven is to be repaid monthly beginning November 2020, with interest accruing at a fixed rate of 0.98%, and for a period of two years.

Uncertainty

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and the size and duration of group meetings. Most sectors are experiencing disruption to business operations and may feel further impact related to delayed government reimbursement, volatility in investment returns, and reduced philanthropic support. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Therefore, while management expects this matter to negatively impact the Foundation's operating results, the related financial impact and duration cannot be reasonably estimated at this time.

The U.S. government has responded with three phases of relief legislation, as a response to the COVID-19 outbreak. The most recent legislation was enacted into law on March 27, 2020, called the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a statute to address the economic impact of the COVID-19 outbreak. The CARES Act, among other things, 1) authorizes emergency loans to distressed businesses by establishing, and providing funding for, forgivable bridge loans, 2) provides additional funding for grants and technical assistance, 3) delays due dates for employer payroll taxes and estimated tax payments for corporations, and 4) revises provisions of the Internal Revenue Code, including those related to losses, charitable deductions, and business interest. Management has evaluated and will continue to evaluate the impact of the CARES Act on the Foundation, including its potential benefits and limitations that may result from, among other things, funding.