

X PRIZE Foundation, Inc. and Subsidiaries

**Consolidated Financial Statements
and Independent Auditor's Report**

December 31, 2018

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

X PRIZE Foundation, Inc. and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
X PRIZE Foundation, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of X PRIZE Foundation, Inc. and Subsidiaries (collectively, the "Foundation"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditor's 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of X PRIZE Foundation, Inc. and Subsidiaries as of December 31, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited X PRIZE Foundation, Inc. and Subsidiaries 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 9, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited statements from which it has been derived.

CohnReznick LLP

Los Angeles, California
August 20, 2019

X PRIZE Foundation, Inc. and Subsidiaries

**Consolidated Statement of Financial Position
December 31, 2018
With Summarized Totals at December 31, 2017
(Dollars in Thousands)**

| <u>Assets</u> | <u>2018</u> | <u>2017</u> |
|---|------------------|-------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 3,988 | \$ 3,656 |
| Current portion of pledges receivable, net | 5,656 | 16,045 |
| Current portion of sponsorships receivable, net | 1,440 | 7,683 |
| Other receivables, net | 1,451 | 2,577 |
| Prepaid expenses and other | 430 | 197 |
| Total current assets | <u>12,965</u> | <u>30,158</u> |
| Restricted investments for prize purses | 27,442 | 26,539 |
| Restricted cash for lease deposit | 751 | 751 |
| Investments | 40,969 | 44,408 |
| Pledges receivable, net of current portion | 7,498 | 11,192 |
| Sponsorships receivable, net of current portion | 516 | 1,956 |
| Property and equipment, net | 1,139 | 1,734 |
| Investment in joint venture | 10 | 10 |
| Other assets | 8 | 8 |
| Total assets | <u>\$ 91,298</u> | <u>\$ 116,756</u> |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 4,076 | \$ 4,196 |
| Capital lease obligation | - | 6 |
| Total current liabilities | <u>4,076</u> | <u>4,202</u> |
| Deferred rent | 956 | 1,400 |
| Deferred revenue | 5,375 | 9,552 |
| Prize purses | 27,442 | 26,539 |
| Total liabilities | <u>37,849</u> | <u>41,693</u> |
| Commitments and contingencies | | |
| Net assets | | |
| Without donor restrictions | 5,609 | 14,714 |
| With donor restrictions | 47,840 | 60,349 |
| Total net assets | <u>53,449</u> | <u>75,063</u> |
| Total liabilities and net assets | <u>\$ 91,298</u> | <u>\$ 116,756</u> |

See Notes to Consolidated Financial Statements.

X PRIZE Foundation, Inc. and Subsidiaries

Consolidated Statement of Activities
Year Ended December 31, 2018
With Summarized Totals for the Year Ended December 31, 2017
(Dollars in Thousands)

| | <u>Without donor restrictions</u> | <u>With donor restrictions</u> | <u>Total</u> | <u>2017</u> |
|--------------------------------------|---------------------------------------|------------------------------------|------------------|------------------|
| Revenue and support | | | | |
| Sponsorships | \$ - | 3,988 | \$ 3,988 | \$ 16,949 |
| Contributions | 11,634 | - | 11,634 | 9,087 |
| Investment income, net | 1,463 | - | 1,463 | 1,025 |
| Net assets released from restriction | <u>16,497</u> | <u>(16,497)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>29,594</u> | <u>(12,509)</u> | <u>17,085</u> | <u>27,061</u> |
| Expenses | | | | |
| Program services | 26,397 | - | 26,397 | 20,441 |
| Management and general | 8,560 | - | 8,560 | 12,582 |
| Fundraising | <u>3,742</u> | <u>-</u> | <u>3,742</u> | <u>4,554</u> |
| Total expenses | <u>38,699</u> | <u>-</u> | <u>38,699</u> | <u>37,577</u> |
| Change in net assets | (9,105) | (12,509) | (21,614) | (10,516) |
| Net assets, beginning of year | <u>14,714</u> | <u>60,349</u> | <u>75,063</u> | <u>85,579</u> |
| Net assets, end of year | <u>\$ 5,609</u> | <u>\$ 47,840</u> | <u>\$ 53,449</u> | <u>\$ 75,063</u> |

See Notes to Consolidated Financial Statements.

X PRIZE Foundation, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2018
With Summarized Totals for the Year Ended December 31, 2017
(Dollars in Thousands)**

| | Program services | | | | | | | | | | Support services | | | Total | 2017 | |
|--|------------------|--------------|-----------------|-----------------|----------------------|-----------------|-----------------|-------------------|-----------------|------------------------|------------------------|-----------------|------------------------|------------------|------------------|--|
| | Learning | Energy | Exploration | Civil Society | Health and Longevity | Environment | Mobility | Prize Development | Education | Total program services | Management and general | Fundraising | Total support services | | | |
| Personnel | | | | | | | | | | | | | | | | |
| Salaries | \$ 1,080 | \$ 37 | \$ 837 | \$ 320 | \$ 496 | \$ 1,014 | \$ 293 | \$ 774 | \$ 382 | \$ 5,233 | \$ 2,849 | \$ 1,605 | \$ 4,454 | \$ 9,687 | \$ 10,950 | |
| Payroll taxes and employee benefits | 234 | 11 | 110 | 50 | 68 | 221 | 84 | 93 | 93 | 964 | 1,602 | 384 | 1,986 | 2,950 | 1,932 | |
| Total personnel | 1,314 | 48 | 947 | 370 | 564 | 1,235 | 377 | 867 | 475 | 6,197 | 4,451 | 1,989 | 6,440 | 12,637 | 12,882 | |
| Operations | | | | | | | | | | | | | | | | |
| Bad debt | - | - | - | - | - | - | - | 555 | - | 555 | 3,212 | - | 3,212 | 3,767 | 1,100 | |
| Bank charges | - | - | 1 | - | - | - | - | 6 | 5 | 12 | 1 | 2 | 3 | 15 | 125 | |
| Communication and marketing | 125 | - | 286 | 209 | 541 | 150 | 206 | 116 | 14 | 1,647 | 14 | 814 | 828 | 2,475 | 2,832 | |
| Competition expense | 2,234 | - | 789 | 750 | - | 439 | - | 1,500 | - | 5,712 | - | - | - | 5,712 | - | |
| Computer and equipment repairs and maintenance | 3 | - | - | - | 10 | - | 2 | - | - | 15 | 23 | 5 | 28 | 43 | 600 | |
| Consultant expenses | 93 | - | 340 | 91 | 534 | 318 | 140 | 164 | 40 | 1,720 | 31 | 275 | 306 | 2,026 | - | |
| Depreciation and amortization | - | - | - | - | - | - | - | - | - | - | 719 | - | 719 | 719 | 768 | |
| Facilities | - | - | - | - | - | - | - | 4 | - | 4 | 55 | - | 55 | 59 | 1,081 | |
| Insurance | - | - | - | - | - | - | - | - | - | - | 10 | - | 10 | 10 | 144 | |
| Interest expense | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3 | |
| Office expenses | 2 | - | - | - | - | 1 | 1 | 7 | - | 11 | 5 | 9 | 14 | 25 | 170 | |
| Other | 466 | 1 | 1,190 | 427 | 321 | 895 | 408 | 217 | 127 | 4,052 | - | 580 | 580 | 4,632 | 299 | |
| Postage and delivery | 7 | - | 9 | - | 1 | 2 | - | 4 | 4 | 27 | - | - | - | 27 | 69 | |
| Professional services | - | - | - | - | 2 | - | - | - | - | 2 | 16 | - | 16 | 18 | 5,861 | |
| Special event expenses | 7 | - | 85 | 112 | 71 | 348 | 389 | 3,075 | 683 | 4,770 | 7 | - | 7 | 4,777 | 9,003 | |
| Staff development | 2 | - | 2 | - | - | 6 | - | 9 | - | 19 | 3 | 10 | 13 | 32 | 554 | |
| Taxes | - | - | 2 | - | - | - | - | - | - | 2 | 1 | - | 1 | 3 | 20 | |
| Telephone and internet | 5 | - | 34 | - | - | 3 | - | 2 | - | 44 | 3 | - | 3 | 47 | 74 | |
| Travel and entertainment | 211 | - | 605 | 81 | 54 | 276 | 96 | 163 | 122 | 1,608 | 9 | 58 | 67 | 1,675 | 1,992 | |
| Total operations | 3,155 | 1 | 3,343 | 1,670 | 1,534 | 2,438 | 1,242 | 5,822 | 995 | 20,200 | 4,109 | 1,753 | 5,862 | 26,062 | 24,695 | |
| Total functional expenses | \$ 4,469 | \$ 49 | \$ 4,290 | \$ 2,040 | \$ 2,098 | \$ 3,673 | \$ 1,619 | \$ 6,689 | \$ 1,470 | \$ 26,397 | \$ 8,560 | \$ 3,742 | \$ 12,302 | \$ 38,699 | \$ 37,577 | |

See Notes to Consolidated Financial Statements.

X PRIZE Foundation, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2018
With Summarized Totals for the Year Ended December 31, 2017
(Dollars in Thousands)

| | <u>2018</u> | <u>2017</u> |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (21,614) | \$ (10,516) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities | | |
| Depreciation and amortization | 719 | 768 |
| Deferred rent | (444) | (407) |
| Realized and unrealized loss on investments | 226 | 95 |
| Provision for bad debt | 3,767 | 1,100 |
| Change in operating assets and liabilities | | |
| Pledges receivable | 11,933 | (6,900) |
| Sponsorships receivable | 7,533 | 9,287 |
| Other receivables | 979 | (254) |
| Prepaid expenses and other | (233) | (108) |
| Accounts payable and accrued expenses | (120) | 1,515 |
| Deferred revenue | (4,177) | 6,331 |
| | <u>(1,431)</u> | <u>911</u> |
| Net cash (used in) provided by operating activities | | |
| Cash flows from investing activities | | |
| Purchase of investments | (55,379) | (67,269) |
| Proceeds from sale of investments | 57,272 | 67,732 |
| Purchases of property and equipment | (124) | (139) |
| | <u>1,769</u> | <u>324</u> |
| Net cash provided by investing activities | | |
| Cash flows from financing activities | | |
| Principal payments on capital lease obligation | (6) | (35) |
| | <u>332</u> | <u>1,200</u> |
| Net increase in cash and cash equivalents | | |
| Cash and cash equivalents, beginning of year | <u>4,407</u> | <u>3,207</u> |
| Cash and cash equivalents, end of year | <u>\$ 4,739</u> | <u>\$ 4,407</u> |
| Cash and cash equivalents consist of the following | | |
| Cash and cash equivalents | \$ 3,988 | \$ 3,656 |
| Restricted cash for lease deposit | 751 | 751 |
| | <u>\$ 4,739</u> | <u>\$ 4,407</u> |
| Supplemental schedule of cash flow information | | |
| Interest paid | <u>\$ -</u> | <u>\$ 3</u> |

See Notes to Consolidated Financial Statements.

X PRIZE Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2018

Note 1 - Business activity

X PRIZE Foundation, Inc. ("X PRIZE") is a not-for-profit 501(c)(3) Maryland corporation fostering and sponsoring competition to create innovative breakthroughs for the benefit of humanity. The Foundation conducts competitions in seven prize groups: Learning & Human Potential, Energy & Resources; Space & New Frontiers; Civil Society; Health & Wellness; Planet & Environment; and Shelter & Infrastructure. In addition, the Foundation provides and operates education and outreach programs related to its mission. These activities consist of speeches, visual presentations and educational materials in partnership with key academic institutions, as well as research and publication of information in the general public interest. X PRIZE was incorporated in 1994 and is currently headquartered in Los Angeles, California.

X PRIZE Foundation India was incorporated in India on January 31, 2012 under Section 25 of the Companies Act, 1956 as a nonprofit entity, and is a wholly-owned subsidiary of X PRIZE.

X PRIZE further incorporated another entity in India, X PRIZE Foundation. The entity was incorporated on November 28, 2014 under Section 7 of the Companies Act, 2013 and Rule 8 of the Companies (Incorporation) Rules, 2014 as a nonprofit entity, and is a wholly-owned subsidiary of X PRIZE.

Note 2 - Summary of significant accounting policies

Basis of presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of consolidation

The consolidated financial statements include the accounts of X Prize and its two wholly-owned subsidiaries (collectively, the "Foundation"). All intercompany transactions and balances have been eliminated in consolidation.

Financial statements presentation

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, which are described as follows:

Net assets without donor restrictions - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Foundation.

Net assets with donor restrictions - Net assets whose use by the Foundation is subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Foundation or that expire by the passage of time.

Contributions and sponsorships

Contributions and sponsorships received are recorded as support with donor restrictions or without donor restrictions depending on the existence or nature of any donor restrictions. Contributions and sponsorships for which donors have imposed restrictions which limit the use of the donated assets are reported as support with donor restriction if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, support with donor restrictions are reclassified to support without donor restrictions and reported as net

X PRIZE Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2018

assets released from restrictions. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as net assets with donor restrictions. Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as support without donor restrictions.

Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Functional allocation of expenses

The costs of providing various program services, management and general, and fundraising expenses have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting activities that benefited based on estimates of employees' time incurred and on usage of resources.

Cash and cash equivalents

Cash and cash equivalents include demand deposits and highly liquid investments with an initial maturity at the date of purchase of three months or less.

Restricted cash

The Foundation's lease is secured by a letter of credit (see Note 9). The letter of credit is secured by cash held at a financial institution. As of December 31, 2018, the restricted cash balance was \$751,000.

Receivables

Receivables are stated at unpaid balances, less an allowance for doubtful accounts. The Foundation provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances. It is the Foundation's policy to charge off uncollectible receivables when management determines the receivable will not be collected. A provision for uncollected pledges, sponsorships and other receivables has been provided, if necessary, based on management's judgment, including such factors as prior collection history, type of contribution and when contributions are anticipated to be received.

Investments

Investments in securities are reported at their fair value in the consolidated statement of financial position. Unrealized gains and losses are included in the consolidated statement of activities as investment income (loss) and change in net assets.

Investments are made according to the investment policies, guidelines, and objectives adopted by the Foundation's Board of Directors. These guidelines provide for investments in equities, fixed income, and other securities, with performance measured against appropriate indices. The investments are generally managed by an investment advisor who is assigned by the finance committee. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the investment advisor.

Property and equipment

Property and equipment are stated at cost if purchased, or fair value on the date of donation if donated, less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, generally ranging from three to seven years. Expenditures for major renewals and improvements that extend

X PRIZE Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2018

the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets

Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Foundation periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred. No impairments were recorded during the year ended December 31, 2018.

Fair value measurements

The Foundation values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Investment in joint venture

The Foundation has an investment in a joint venture for which no quoted market prices are available. The units are not publicly traded and are carried at cost as the Foundation does not have substantial influence over the investment.

Deferred revenue

The Foundation records amounts received for events that have not yet occurred, amounts received which are subject to refund and other amounts which have not been earned as deferred revenue in the consolidated statement of financial position until such amounts have been earned.

Deferred rent

The Foundation records rent expense under its operating lease on a straight-line basis over the lease term. Deferred rent results from the difference between increasing monthly cash rent payments and the straight-line expense.

Prize purses

Prize purses held by the Foundation are treated as conditional promises and thus are accounted for as refundable advances until the required conditions have been substantially met or explicitly waived by the donor. Prize purses have been recorded as restricted investments and long-term liabilities in the consolidated statement of financial position.

Income taxes

The Foundation is a not-for profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of

X PRIZE Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2018

the State of California and is not required to file a tax return. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Foundation has no unrecognized tax benefits at December 31, 2018. The Foundation's federal income tax returns for fiscal years 2018, 2017 and 2016 remain open. The Foundation's state income tax returns for fiscal years 2018, 2017, 2016 and 2015 remain open. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. If applicable, the Foundation recognizes interest and penalties associated with tax matters as part of income tax expense and includes accrued interest and penalties with accounts payable and accrued expenses in the statement of financial position.

The Foundation is subject to income taxes on any net income that is derived from trade or business, regularly carried on and not in the furtherance of the purposes for which it was granted exemption. The Foundation receives various corporate sponsorships, which it carefully evaluates as to whether the income is subject to unrelated business income tax. The Foundation was not subject to any unrelated business income tax for the year ended December 31, 2018.

Use of estimates

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

Subsequent events

The Foundation has evaluated the impact of subsequent events through August 20, 2019, which is the date the financial statements were available to be issued.

Note 3 - Liquidity

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual requirements. The Foundation's revenues are sufficient to cover expenditures for at least 12 months from the date of the consolidated statement of financial position.

As of December 31, 2018, the following table shows the total financial assets available to meet general expenditures over the next 12 months:

| | | |
|--|----|---------------|
| Cash and cash equivalents | \$ | 3,988 |
| Current portion of pledges receivable, net | | 5,656 |
| Current portion of sponsorships receivable, net | | 1,440 |
| Other receivables, net | | 101 |
| | | <hr/> |
| Financial assets available within one year to meet cash needs for general expenditures | \$ | <u>11,185</u> |

X PRIZE Foundation, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2018**

Note 4 - Concentrations

Financial instruments which potentially subject the Foundation to concentrations of credit risk include cash and cash equivalents. The Foundation maintains its cash and cash equivalents and investments with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

The Foundation's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Foundation's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes.

At December 31, 2018, three sponsors accounted for approximately 100% of the Foundation's sponsorship receivables, and two donors accounted for 36% of pledges receivable. For the year ended December 31, 2018, one donors accounted for approximately 21% of the Foundation's contributions, and four sponsors accounted for 74% of sponsorships.

Note 5 - Investments

At December 31, 2018, investments including assets whose use is limited or restricted are stated at fair value at December 31, 2018 are classified in the table below in Note 5 in one of the three categories described in Note 2 (dollars in thousands):

| | | |
|----------------------------|----|---------------|
| Corporate bonds | \$ | 59,956 |
| Treasury bonds | | 4,488 |
| Mortgage backed securities | | 2,614 |
| Money market funds | | 1,353 |
| | | <hr/> |
| | \$ | <u>68,411</u> |

These investments are disclosed in the accompanying consolidated statement of financial position as follows (dollars in thousands):

| | | |
|--|----|---------------|
| Investments | \$ | 40,969 |
| Restricted investments for prize purse | | 27,442 |
| | | <hr/> |
| | \$ | <u>68,411</u> |

X PRIZE Foundation, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2018**

Note 6 - Fair value measurements

Financial assets carried at fair value at December 31, 2018 are classified in the table below in one of the three categories as described in Note 2 (dollars in thousands):

| Investment securities | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|----------|---------------|----------|---------------|
| Corporate bonds | \$ - | \$ 59,956 | \$ - | \$ 59,956 |
| Treasury bonds | - | 4,488 | - | 4,488 |
| Mortgage backed securities | - | 2,614 | - | 2,614 |
| Money market funds | - | 1,353 | - | 1,353 |
| Total assets | \$ - | \$ 68,411 | \$ - | \$ 68,411 |

Note 7 - Pledges and sponsorships receivable

At December 31, 2018, pledges and sponsorships receivable consist of unconditional promises to give and have been recorded at their present values. Those receivables that are due in future payments have been discounted to their present values, using a discount rate range of .76% to 1.65%. The receivables are recorded as follows (dollars in thousands):

| | Pledges | Sponsorships |
|--|--------------|--------------|
| Due in one year | \$ 5,656 | \$ 1,440 |
| Due in two to five years | 9,205 | 750 |
| Total | 14,861 | 2,190 |
| Less discount to net present value | (357) | (234) |
| Less allowance for uncollectible pledges | (1,350) | - |
| | 13,154 | 1,956 |
| Less current portion | (5,656) | (1,440) |
| Total long term portion | \$ 7,498 | \$ 516 |

X PRIZE Foundation, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2018**

Note 8 - Property and equipment

At December 31, 2018, property and equipment consist of the following (dollars in thousands):

| | | |
|--|----|---------------------|
| Furniture and fixtures | \$ | 729 |
| Office and computer equipment | | 1,106 |
| Leasehold improvements | | 2,717 |
| Mock Up-Spaceship One | | 94 |
| Equipment and software | | 621 |
| | | <u>5,267</u> |
| Less accumulated depreciation and amortization | | <u>(4,128)</u> |
| Total | \$ | <u><u>1,139</u></u> |

Depreciation and amortization expense was approximately \$719,000 for the year ended December 31, 2018.

Note 9 - Commitments and contingencies

Operating lease

The Foundation leases office space under a noncancelable operating lease that expires on November 30, 2020. Total rent expense for office facilities and storage was approximately \$976,000 for the year ended December 31, 2018.

The following is a schedule of future minimum rental payments required under the noncancelable operating lease as of December 31, 2018 (dollars in thousands):

| | | |
|------|----|---------------------|
| 2019 | \$ | 1,315 |
| 2020 | | 1,239 |
| | | <u>2,554</u> |
| | \$ | <u><u>2,554</u></u> |

The lease agreement requires the Foundation to maintain a bank standby letter of credit with the lessor as the beneficiary. At December 31, 2018, the standby letter of credit was \$751,000 (see Note 2).

Legal matters

The Foundation is subject to certain legal matters arising in the normal course of business. In the opinion of the Foundation's legal counsel, such legal matters are without substantial merit and should not result in judgments which, in the aggregate, would have a material adverse effect on the Foundation's consolidated financial statements.

X PRIZE Foundation, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2018**

Note 10 - Net assets with donor restrictions

Movements in net assets with donor restrictions were as follows:

| | (In thousands) | | | |
|------------------------------------|-----------------------------------|-----------------|------------------------------|-----------------------------------|
| | Available December 31, 2017 | New revenue | Released from restriction | Available December 31, 2018 |
| ACS Cancer | \$ - | \$ 627 | \$ (627) | \$ - |
| Adult Literacy | 2,780 | - | (1,780) | 1,000 |
| AI Physician X Prize | 250 | - | - | 250 |
| Autonomous Auto X Prize | 191 | - | - | 191 |
| Battery X Prize | 183 | - | - | 183 |
| Battery XPRIZE (Page) | 332 | - | - | 332 |
| Alzheimer refresh | 35 | - | (35) | - |
| ANA Avatar XPRIZE | 11,569 | - | (1,558) | 10,011 |
| Carbon Removal | - | 112 | - | 112 |
| Carbon XPRIZE | 9,841 | 116 | (2,552) | 7,405 |
| Education XPRIZE | 805 | - | - | 805 |
| Energy and Environment | 34 | - | - | 34 |
| General Environment | - | 25 | - | 25 |
| General Exploration | - | 9 | - | 9 |
| General Human Health | - | 21 | - | 21 |
| General Learning | - | 21 | - | 21 |
| Global Learning XPRIZE | 4,048 | 226 | (2,644) | 1,630 |
| General Civil Society | - | 18 | - | 18 |
| Go Deeper | 873 | - | (305) | 568 |
| GoogleLunar X Prize | 2,772 | - | (536) | 2,236 |
| IBM AI-Human Collaboration | 5,421 | 266 | (827) | 4,860 |
| Impact X | 25 | - | - | 25 |
| Iron Man | - | 53 | (15) | 38 |
| Lost Children | - | 50 | - | 50 |
| Lowes Housing Futures Roadmap | 164 | 1,063 | (749) | 478 |
| Nokia Sensing X Challenge | 642 | - | (121) | 521 |
| Ocean Discovery | 5,889 | - | (2,880) | 3,009 |
| Oil Cleanup X Challenge | 24 | - | - | 24 |
| Plastic X Challenge | 28 | - | - | 28 |
| Prize Development (Roddenberry) | 2,400 | - | - | 2,400 |
| Qualcomm Tricorder X Prize | - | 188 | (14) | 174 |
| Shell | 36 | - | - | 36 |
| Shell Off-Grid Energy | - | 250 | (1) | 249 |
| Tick Borne Disease Alliance (TBDA) | 61 | - | - | 61 |
| Tuberculosis X Prize | 9 | - | - | 9 |
| Vision Restoration X Prize | 284 | - | - | 284 |
| Water XPRIZE | 1,043 | 350 | (1,280) | 113 |
| Wendy Schmidt Ocean Health XC | 1,665 | - | (80) | 1,585 |
| Womens Safety | - | 593 | (493) | 100 |
| Time Restriction | 8,945 | - | - | 8,945 |
| Total | \$ 60,349 | \$ 3,988 | \$ (16,497) | \$ 47,840 |

X PRIZE Foundation, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2018**

Note 11 - Prize purses

For most competitions, custody of prize purses is maintained by the prize sponsor until the time a prize is won. The Foundation enters into an agreement with the prize sponsor that specifies how funds are held and the terms of the prize award.

During the year ended December 31, 2013, the Foundation had a conditional contribution of approximately \$11,892,000 designated for the prize purse for an X PRIZE to be determined at a later date. At December 31, 2018, the Foundation has recorded this amount as restricted investment and a liability in prize purses.

During each of the years ended December 31, 2017, 2016, 2015 and 2014, the Foundation had a conditional contribution of \$3,750,000 designated for the prize purse for Global Learning X PRIZE for a total prize purse of \$15,000,000. During the year ended December 31, 2017, \$5,000,000 of the prize purse was awarded. At December 31, 2018, the balance of \$10,000,000 was remaining, which is recorded as restricted investment and a liability in prize purses.

During the year ended December 31, 2016, the Foundation had a conditional contribution of approximately \$1,000,000 designated for the prize purse for GLXP Milestone X PRIZE. During the years ended December 31, 2016 and 2017, \$938,000 and \$20,000, respectively, of the GLXP Milestone prize purse was awarded. At December 31, 2018, the unpaid portion of the prize purse for GLXP Milestone X PRIZE totaling \$44,000 was recorded as restricted investment and a liability in prize purses to be used for a future prize based on the donor's designation.

During each of the years ended December 31, 2017 and 2018, the Foundation received a conditional contribution of \$3,000,000 designated for the prize purse for Adult Literacy. During the year ended December 31, 2018, \$500,000 of the prize purse was awarded. At December 31, 2018, the balance of \$5,500,000 was remaining, which is recorded as a restricted investment and liability in prize purses.

During each of the years ended December 31, 2017 and 2018, the Foundation received conditional contributions of \$30,000 and \$70,000, respectively, designated for the prize purse for IBM Artificial Intelligence Human. During the years ended December 31, 2017 and 2018, \$26,000 and \$68,000, respectively, of the prize purse was awarded. At December 31, 2018, the unpaid portion of the prize purse totaling \$6,000 is recorded as restricted investment and a liability in prize purse.

Note 12 - Employee benefit plans

The Foundation sponsors a 401(k) plan that covers substantially all eligible employees, as defined in the 401(k) Plan agreement. Under the 401(k) Plan, employees may contribute and defer taxes on compensation contributed. The Foundation contributed approximately \$254,000 during the year ended December 31, 2018.

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