

**THE DEMOCRACY COLLABORATIVE  
FOUNDATION, INC.**

**FINANCIAL REPORT**

**DECEMBER 31, 2018 and 2017**

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

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## Independent Auditors' Report

Board of Directors  
The Democracy Collaborative Foundation, Inc.  
Cleveland, Ohio

We have audited the accompanying financial statements of The Democracy Collaborative Foundation, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years then ended and the statement of functional expenses for the year ended December 31, 2018, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Democracy Collaborative Foundation, Inc. as of December 31, 2018 and 2017, 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.



Cleveland, Ohio  
September 3, 2019

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$2,168,124	\$ 150,732
Loan receivable	-	25,000
Pledges receivable, net	2,003,302	1,031,848
Service receivables, less allowance of \$2,132 in 2018 and \$-0- in 2017	102,633	42,002
Prepaid expenses	94,930	44,419
Total current assets	<u>4,368,989</u>	<u>1,294,001</u>
OTHER ASSETS	23,143	15,125
PLEDGES RECEIVABLE, NET	1,175,477	337,440
PROPERTY AND EQUIPMENT		
Computer equipment	49,729	38,088
Office furniture	74,506	60,921
Leasehold improvements	532,823	532,823
	<u>657,058</u>	<u>631,832</u>
Less: accumulated depreciation	151,239	82,760
Net property and equipment	<u>505,819</u>	<u>549,072</u>
TOTAL ASSETS	<u>\$6,073,428</u>	<u>\$2,195,638</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 164,004	\$ 132,385
Accrued expenses	177,066	169,439
Deferred revenue	20,000	-
Deferred rent	50,955	50,955
Total current liabilities	<u>412,025</u>	<u>352,779</u>
DEFERRED RENT	506,461	557,112
NET ASSETS		
Without donor restrictions	(665,690)	519,157
With donor restrictions	5,820,632	766,590
Total net assets	<u>5,154,942</u>	<u>1,285,747</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$6,073,428</u>	<u>\$2,195,638</u>

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

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Totals
<b>REVENUE AND SUPPORT</b>			
Grant revenue	\$ 562,632	\$ 7,650,842	\$ 8,213,474
Service income	941,251	-	941,251
Net assets released from restrictions	<u>2,596,800</u>	<u>(2,596,800)</u>	<u>-</u>
Total revenue and support	4,100,683	5,054,042	9,154,725
<b>EXPENSES</b>			
Program	4,228,004	-	4,228,004
General and administrative	854,473	-	854,473
Fundraising	<u>203,053</u>	<u>-</u>	<u>203,053</u>
Total expenses	<u>5,285,530</u>	<u>-</u>	<u>5,285,530</u>
<b>CHANGE IN NET ASSETS</b>	(1,184,847)	5,054,042	3,869,195
<b>NET ASSETS – BEGINNING OF YEAR</b>	<u>519,157</u>	<u>766,590</u>	<u>1,285,747</u>
<b>NET ASSETS – END OF YEAR</b>	<u>\$ (665,690)</u>	<u>\$ 5,820,632</u>	<u>\$ 5,154,942</u>

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

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Totals
<b>REVENUE AND SUPPORT</b>			
Grant revenue	\$ 514,442	\$ 1,055,287	\$ 1,569,729
Service income	649,472	-	649,472
Net assets released from restrictions	<u>1,562,669</u>	<u>(1,562,669)</u>	<u>-</u>
Total revenue and support	2,726,583	(507,382)	2,219,201
<b>EXPENSES</b>			
Program	3,109,324	-	3,109,324
General and administrative	1,028,095	-	1,028,095
Fundraising	<u>378,993</u>	<u>-</u>	<u>378,993</u>
Total expenses	<u>4,516,412</u>	<u>-</u>	<u>4,516,412</u>
CHANGE IN NET ASSETS	(1,789,829)	(507,382)	(2,297,211)
NET ASSETS – BEGINNING OF YEAR	<u>2,308,986</u>	<u>1,273,972</u>	<u>3,582,958</u>
NET ASSETS – END OF YEAR	<u>\$ 519,157</u>	<u>\$ 766,590</u>	<u>\$ 1,285,747</u>

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

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	Engaged Practice and Employee Ownership	Anchor Institution	Theory, Research and Policy	Total Program	General and Administrative	Fundraising	Total
<b>OPERATING EXPENSES</b>							
Payroll and related	\$ 692,056	\$ 736,368	\$1,255,436	\$2,683,860	\$ 411,987	\$ 160,734	\$3,256,581
Contractors and consultants	108,166	232,765	394,892	735,823	147,198	248	883,269
Travel and meals	115,958	142,995	123,324	382,277	75,369	32,690	490,336
Office expense	39,544	88,516	94,202	222,262	136,377	5,519	364,158
Printing and mailing	5,444	34,937	37,892	78,273	12,490	528	91,291
Subscriptions, memberships and fees	12,149	5,590	18,073	35,812	4,921	1,402	42,135
Computer and software	2,477	11,930	6,194	20,601	22,471	469	43,541
Depreciation	9,929	12,593	19,965	42,487	25,244	1,463	69,194
Miscellaneous	3,016	-	23,593	26,609	18,416	-	45,025
Total operating expenses	<u>\$ 988,739</u>	<u>\$1,265,694</u>	<u>\$1,973,571</u>	<u>\$4,228,004</u>	<u>\$ 854,473</u>	<u>\$ 203,053</u>	<u>\$5,285,530</u>

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

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,869,195	\$(2,297,211)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	69,194	59,082
Forgiveness of debt	-	25,000
Loss on disposal of property and equipment	2,140	-
(Increase) decrease in assets:		
Service receivables	(60,631)	23,661
Pledges receivable	(1,809,491)	1,202,427
Prepaid expenses	(50,511)	(14,705)
Other assets	(8,018)	-
Increase (decrease) in liabilities:		
Accounts payable	31,619	31,347
Accrued expenses	7,627	79,217
Deferred revenue	20,000	(25,000)
Deferred rent	(50,651)	(9,165)
Total adjustments	<u>(1,848,722)</u>	<u>1,371,864</u>
Net cash provided by (used in) operating activities	2,020,473	(925,347)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(28,081)	(30,600)
Repayment of loan receivable	<u>25,000</u>	<u>-</u>
Net cash used in investing activities	<u>(3,081)</u>	<u>(30,600)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,017,392	(955,947)
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>	<u>150,732</u>	<u>1,106,679</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 2,168,124</u>	<u>\$ 150,732</u>
<b>Supplemental disclosure of noncash operating and investing activities:</b>		
Tenant improvements paid directly by lessor	\$ -	\$ 225,997

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



THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies**

- A. Nature of Activities – The Democracy Collaborative Foundation, Inc. (the "Organization") is a non-profit organization formed in 2003, which works to carry out a vision of a new economic system where shared ownership and control creates more equitable and inclusive outcomes, fosters ecological sustainability, and promotes flourishing democratic and community life. The Organization's revenues are principally derived from private foundation grants.
- B. Basis of Accounting – The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization has reported information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net Assets Without Donor Restrictions: Include the net assets not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions: Include the net assets from grants, contributions, or other inflows where the use is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of the Organization. The Organization had net assets with donor restrictions of \$5,820,632 and \$766,590 as of December 31, 2018 and 2017, respectively. These assets would also include those whose donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity and only the income be utilized. The Organization had no such net assets restricted in perpetuity as of December 31, 2018 and 2017.

The Organization reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction expires 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.

- C. 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 disclosure 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.
- D. Cash and Cash Equivalents – The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. The Organization maintains at various financial institutions cash and cash equivalents which, at times, may exceed federally insured amounts and may significantly exceed statement of financial position amounts due to outstanding checks.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Summary of Significant Accounting Policies (Continued)**

- E. Promises to Give – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contribution is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. Pledges outstanding at December 31, 2018 and 2017 are expected to be received as follows: \$2,003,302 and \$1,031,848 in less than one year and \$1,219,556 and \$350,093 in one to two years, respectively. A discount rate of 3.75% was utilized for pledges receivable beyond one year, which reduced the balances by \$44,080 and \$12,653, respectively. No allowance for doubtful accounts was deemed necessary by management based on a review of outstanding pledges and an assessment of their historical collections.
- F. Service Income Recognition and Deferred Revenue – Revenues related to advisory services are recorded when the service is provided. A deferred revenue liability is recorded for service income received but not yet earned. At December 31, 2018 and 2017, the Organization recorded deferred revenue of \$20,000 and \$-0-, respectively, in relation to these contracts.
- G. Property and Equipment – Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Purchases in excess of \$1,000 with useful lives greater than one year are capitalized. The Organization provides for depreciation of property and equipment using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 10 years. Routine expenditures for repairs and maintenance are expensed as incurred.
- H. Tax Status – The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three years after they were filed.
- I. Change in Accounting Principle – On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization adopted the provisions of this new standard during the year ended December 31, 2018 and adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.
- J. Functional Expenses – The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated included occupancy on a square footage basis, as well as salaries, wages, and benefits, professional services, office expenses, and other, which are allocated on the basis of estimates of time and effort.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Summary of Significant Accounting Policies (Continued)**

- K. Reclassifications – Certain reclassifications have been made to prior year's balances to conform to the current year presentation.
- L. Subsequent Events – The Organization has evaluated subsequent events through September 3, 2019, which is the date the financial statements were available to be issued. There are no subsequent events that require disclosure.

**Note 2. Liquidity and Availability**

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. As of December 31, 2018, the Organization has cash and cash equivalents, pledges receivable, and service receivables as listed below that are readily available to meet expenditures for the next year. In addition, the Organization receives support without donor restrictions to fund general expenditures during the year. Resources available for general expenditures also include pledges and contribution revenue that are restricted for projects considered to be operational in nature by the Organization that will be expended and released within the next year.

Cash and cash equivalents	\$2,168,124
Pledges receivable, net - expected to be received in 2019	2,003,302
Service receivables, net	<u>102,633</u>
	<u>\$4,274,059</u>

**Note 3. Net Assets With Donor Restrictions**

Net assets with donor restrictions are available for the following purposes for the years ended:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specific purpose:		
Theory and Policy Programs	\$1,929,006	\$ 96,596
Engaged Practice and Employee Ownership Programs	225,446	90,612
Anchor Institution Programs	<u>487,401</u>	<u>244,219</u>
	2,641,853	431,427
Promises to give, subject to expenditure for specific purpose:		
Theory and Policy Programs	2,002,127	-
Engaged Practice and Employee Ownership Programs	200,000	125,070
Anchor Institution Programs	<u>976,652</u>	<u>210,093</u>
	<u>3,178,779</u>	<u>335,163</u>
	<u>\$5,820,632</u>	<u>\$ 766,590</u>

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 4. Loan Receivable**

The Organization issued an interest-free note to Evergreen Cooperative Initiative in 2015 in the amount of \$100,000. During 2017, \$25,000 of the loan was forgiven and the loan was fully repaid in 2018.

**Note 5. Line of Credit**

The Organization has a line of credit with PNC Bank, which is available for operating purposes. This line of credit bears interest at the prime rate plus 0.05%, which was equal to 5.55% at December 31, 2018. The Organization had no borrowings against this line at December 31, 2018 and 2017.

**Note 6. Retirement Plan**

The Organization has a defined contribution plan covering substantially all full-time personnel. Eligible employees may contribute a percentage of their compensation and are automatically enrolled at 3% of their salary. The Organization contributes 7% of each eligible employee's gross pay. The Organization contributed \$176,745 and \$127,528 for the years ended December 31, 2018 and 2017, respectively.

**Note 7. Operating Leases**

The Organization leases office space in Cleveland, Ohio and Washington D.C. and a copier for each office. The Cleveland copier lease requires monthly payments of \$143 through 2024. The Washington D.C. copier lease requires monthly payments of \$128 through 2022.

The lease for the Cleveland office requires monthly rent of \$5,609 with annual increases and will terminate in 2027. The Organization also received a tenant improvement allowance of \$194,545 in the lease. Rent payments under this lease were \$68,045 and \$50,477 for the years ended December 31, 2018 and 2017, respectively. Straight-line lease expense under this lease was \$71,757 and \$53,818 for the years ended December 31, 2018 and 2017, respectively, resulting in a deferred rent liability of \$7,053 and \$3,341 at December 31, 2018 and 2017, respectively. Lease expense was reduced by the amortization of the tenant improvement allowance of \$19,455 and \$14,591 for the years ended December 31, 2018 and 2017, respectively. Included in deferred rent at December 31, 2018 and 2017 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$160,500 and \$179,954, respectively.

In 2016, the Organization entered into a ten year lease terminating in May 2026 for new space in Washington D.C. The lease requires monthly rent of \$7,313 with annual increases. The Organization also received a tenant improvement allowance of \$315,000 and rent credits in the lease. Rent payments under this lease were \$178,132 and \$109,688 for the years ended December 31, 2018 and 2017, respectively. Straight-line lease expense under this lease was 174,723 for the years ended December 31, 2018 and 2017, resulting in a deferred rent liability of \$156,238 and \$159,645 at December 31, 2018 and 2017, respectively. Lease expense was reduced by the amortization of the tenant improvement allowance of \$31,498 for the years ended December 31, 2018 and 2017. Included in deferred rent at December 31, 2018 and 2017 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$233,625 and \$265,127, respectively.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 7. Operating Leases (Continued)**

At December 31, 2018, the minimum future rental payments on these operating lease agreements are as follows:

<u>For the year ended December 31,</u>	
2019	\$254,435
2020	259,518
2021	264,698
2022	269,972
2023	273,805
Thereafter	743,611

Total lease expense for the years ended December 31, 2018 and 2017 was \$202,553 and \$191,640, respectively.