

**THE DEMOCRACY COLLABORATIVE  
FOUNDATION, INC.**

**FINANCIAL REPORT**

**DECEMBER 31, 2017 and 2016**

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 statement of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets 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 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, 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.

### **Emphasis of Matter**

As discussed in Note 1.I., certain errors resulting in the misstatement of amounts previously reported for net assets released from restrictions and service income as of December 31, 2016 have been restated in the 2017 financial statements now presented. Our opinion is not modified with respect to that matter.



Cleveland, Ohio  
September 13, 2018

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u> (as restated)
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 150,732	\$ 1,106,679
Loan receivable	25,000	50,000
Pledge receivable, net	1,031,848	1,832,965
Service receivables (as restated)	42,002	65,663
Prepaid expenses	44,419	29,714
Total current assets	<u>1,294,001</u>	<u>3,085,021</u>
OTHER ASSETS	15,125	15,125
PLEDGE RECEIVABLE, NET	337,440	738,750
PROPERTY AND EQUIPMENT		
Computer equipment	38,088	21,113
Office furniture	60,921	47,296
Leasehold improvements	532,823	306,826
	<u>631,832</u>	<u>375,235</u>
Less: accumulated depreciation	82,760	23,678
Net property and equipment	<u>549,072</u>	<u>351,557</u>
TOTAL ASSETS	<u>\$2,195,638</u>	<u>\$ 4,190,453</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 132,385	\$ 101,038
Accrued expenses	169,439	90,222
Deferred revenue	-	25,000
Deferred rent	50,955	31,500
Total current liabilities	<u>352,779</u>	<u>247,760</u>
DEFERRED RENT	557,112	359,735
NET ASSETS (AS RESTATED)		
Unrestricted	519,157	2,308,986
Temporarily restricted	766,590	1,273,972
Total net assets	<u>1,285,747</u>	<u>3,582,958</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,195,638</u>	<u>\$ 4,190,453</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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<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>			
Payroll and related	2,672,744	-	2,672,744
Contractors and consultants	936,006	-	936,006
Travel and meals	324,042	-	324,042
Office expense	288,260	-	288,260
Printing and mailing	137,338	-	137,338
Subscriptions, memberships and fees	37,417	-	37,417
Computer and software	31,191	-	31,191
Depreciation	59,082	-	59,082
Miscellaneous	<u>30,332</u>	<u>-</u>	<u>30,332</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 ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>REVENUE AND SUPPORT</b>			
Grant revenue	\$ 3,472,882	\$ 842,430	\$ 4,315,312
Service income (as restated)	542,105	-	542,105
Net assets released from restrictions (as restated)	<u>1,495,123</u>	<u>(1,495,123)</u>	<u>-</u>
Total revenue and support	5,510,110	(652,693)	4,857,417
<b>EXPENSES</b>			
Payroll and related	2,412,681	-	2,412,681
Contractors and consultants	658,830	-	658,830
Travel and meals	444,621	-	444,621
Office expense	206,276	-	206,276
Printing and mailing	199,496	-	199,496
Subscriptions, memberships and fees	30,325	-	30,325
Computer and software	41,881	-	41,881
Depreciation	22,949	-	22,949
Miscellaneous	<u>7,603</u>	<u>-</u>	<u>7,603</u>
Total expenses	<u>4,024,662</u>	<u>-</u>	<u>4,024,662</u>
CHANGE IN NET ASSETS	1,485,448	(652,693)	832,755
NET ASSETS – BEGINNING OF YEAR (AS RESTATED)	<u>823,538</u>	<u>1,926,665</u>	<u>2,750,203</u>
NET ASSETS – END OF YEAR	<u>\$ 2,308,986</u>	<u>\$ 1,273,972</u>	<u>\$ 3,582,958</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, 2017 and 2016

	<u>2017</u>	<u>2016</u> (as restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$(2,297,211)	\$ 832,755
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	59,082	22,949
Forgiveness of debt	25,000	-
(Increase) decrease in assets:		
Service receivables	23,661	-
Pledge receivable	1,202,427	(588,360)
Prepaid expenses	(14,705)	(30,253)
Increase (decrease) in liabilities:		
Accounts payable	31,347	41,392
Accrued expenses	79,217	(6,599)
Deferred revenue	(25,000)	25,000
Deferred rent	(9,165)	84,409
Total adjustments	<u>1,371,864</u>	<u>(451,462)</u>
Net cash (used in) provided by operating activities	(925,347)	381,293
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(30,600)	(57,227)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on debt	<u>-</u>	<u>(100,000)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(955,947)	224,066
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>	<u>1,106,679</u>	<u>882,613</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 150,732</u>	<u>\$ 1,106,679</u>
<b>Supplemental disclosure of non-cash operating and investing activities:</b>		
Tenant improvements paid directly by lessor	\$ 225,997	\$ 306,826

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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets: Include the net assets that are free of donor-imposed restrictions and are neither permanently restricted nor temporarily restricted.

Temporarily Restricted Net Assets: 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 temporarily restricted net assets of \$778,562 and \$1,273,972 as of December 31, 2017 and 2016, respectively.

Permanently Restricted Net Assets: Include endowment funds which are subject to the restriction of the donors that the principal be invested in perpetuity and only the income be utilized. The Organization had no permanently restricted net assets as of December 31, 2017 and 2016.

The Organization reports gifts of cash and other assets as restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted net assets if the restrictions expire in the year in which the contribution is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Pledges outstanding at December 31, 2017 and 2016 are expected to be received as follows: \$1,031,848 and \$1,832,965 in less than one year and \$350,093 and \$771,879 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 \$12,653 and \$33,129, 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, 2017 and 2016, the Organization recorded deferred revenue of \$-0- and \$25,000, 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. Restatement/Reclassifications – The 2016 financial statements have been restated to account for misstatements related to service income and net assets released from restrictions. Prior year service income was increased by \$20,000 and service receivables were increased by \$20,000. Beginning temporarily restricted net assets were reduced by \$205,738 and net assets released from restrictions were increased by \$267,732.

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

- J. Subsequent Events – The Organization has evaluated subsequent events through September 13, 2018, which is the date the financial statements were available to be issued. There are no subsequent events that require disclosure.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes for the years ended:

	December 31, 2017			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
Theory and Policy Programs	\$ 1,011,143	\$ 75,000	\$ (989,547)	\$ 96,596
Strategic Planning	84,000	-	(84,000)	-
Engaged Practice and Employee Ownership Programs	156,294	225,100	(165,712)	215,682
Anchor Institution Programs	22,535	755,187	(323,410)	454,312
	<u>\$ 1,273,972</u>	<u>\$ 1,055,287</u>	<u>\$(1,562,669)</u>	<u>\$ 766,590</u>

	December 31, 2016			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
Theory and Policy Programs	\$ 1,500,000	\$ 349,150	\$ (838,007)	\$ 1,011,143
Hospitals Aligned for Healthy Communities	132,403	-	(132,403)	-
Anchor Mission Convening	-	49,280	(49,280)	-
Strategic Planning	-	144,000	(60,000)	84,000
Engaged Practice and Employee Ownership Programs	294,262	200,000	(337,968)	156,294
Anchor Institution Programs	-	100,000	(77,465)	22,535
	<u>\$ 1,926,665</u>	<u>\$ 842,430</u>	<u>\$(1,495,123)</u>	<u>\$ 1,273,972</u>

**Note 3. Loan Receivable**

The Organization issued an interest-free note to Evergreen Cooperative Initiative in 2015 in the amount of \$100,000. The receivable balance at December 31, 2016 was \$50,000. Subsequent to year end, half of the remaining balance of the loan was forgiven leaving a receivable balance of \$25,000 at December 31, 2017. No allowance for doubtful accounts was deemed necessary by management.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 4. 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 \$127,528 and \$139,530 for the years ended December 31, 2017 and 2016, respectively.

**Note 5. Functional Expenses**

The Organization's functional expense classification is as followed for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Program expenses	\$3,109,324	\$2,703,586
Management and general	1,028,095	826,765
Fundraising	<u>378,993</u>	<u>494,311</u>
	<u>\$4,516,412</u>	<u>\$4,024,662</u>

**Note 6. Operating Leases**

The Organization leases office space in Cleveland, Ohio and Washington D.C. and a copier for each office.

Monthly rent for the Cleveland office was \$1,090 until the lease expired in April 2017, at which time a new lease commenced. The new lease has 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 and straight-line lease expense under this lease were \$50,477 and \$53,818, respectively, for the year ended December 31, 2017, resulting in a deferred rent liability of \$3,341 at December 31, 2017. Lease expense was reduced by the amortization of the tenant improvement allowance of \$14,591 for the year ended December 31, 2017. Included in deferred rent at December 31, 2017 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$179,954.

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 \$109,688 and \$7,313 for the years ended December 31, 2017 and 2016, respectively. Straight-line lease expense under this lease was \$174,723 and \$101,923 for the years ended December 31, 2017 and 2016, respectively, resulting in a deferred rent liability of \$159,645 and \$94,610 at December 31, 2017 and 2016, respectively. Lease expense was reduced by the amortization of the tenant improvement allowance of \$31,498 and \$18,375 for the years ended December 31, 2017 and 2016, respectively. Included in deferred rent at December 31, 2017 and 2016 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$265,127 and \$296,625, respectively.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Operating Leases (Continued)**

At December 31, 2017, the minimum future rental payments on these operating lease agreements are as follows:

<u>For the year ended December 31,</u>	
2018	\$ 249,479
2019	254,055
2020	257,802
2021	262,982
2022	268,256
Thereafter	1,015,744

Total lease expense for the years ended December 31, 2017 and 2016 was \$191,640 and \$140,276, respectively.