

**THE DEMOCRACY COLLABORATIVE  
FOUNDATION, INC.**

**FINANCIAL REPORT**

**DECEMBER 31, 2021 and 2020**

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

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## Independent Auditors' Report

Board of Directors  
The Democracy Collaborative Foundation, Inc.  
Washington, D.C.

### **Opinion**

We have audited the financial statements of The Democracy Collaborative Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Democracy Collaborative Foundation, Inc. as of December 31, 2021 and 2020, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of The Democracy Collaborative Foundation, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Democracy Collaborative Foundation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditors' Responsibilities for the Audits of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but it is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Democracy Collaborative Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Democracy Collaborative Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

*Meloney + Novotny LLC*

Cleveland, Ohio  
November 8, 2022

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$1,096,282	\$2,060,543
Pledges receivable, net	25,000	1,191,063
Service receivables	-	255
Other receivables, less allowance of \$-0- in 2021 and \$14,793 in 2020	104,506	-
Employee Retention Tax Credit receivable	366,811	-
Prepaid expenses	<u>80,310</u>	<u>53,271</u>
Total current assets	1,672,909	3,305,132
OTHER ASSETS	15,125	19,381
PLEDGES RECEIVABLE, NET	-	48,193
ASSETS OF DISCONTINUED OPERATIONS	246,906	82,351
PROPERTY AND EQUIPMENT		
Computer equipment	83,000	80,411
Office furniture	81,525	81,525
Leasehold improvements	<u>532,823</u>	<u>532,823</u>
	697,348	694,759
Less: accumulated depreciation	<u>370,170</u>	<u>295,995</u>
Net property and equipment	<u>327,178</u>	<u>398,764</u>
TOTAL ASSETS	<u>\$2,262,118</u>	<u>\$3,853,821</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 55,314	\$ 128,441
Accrued expenses	140,665	168,936
Deferred revenue	75,700	332,530
Deferred rent	50,955	50,955
Sublease liability	<u>24,422</u>	<u>23,178</u>
Total current liabilities	347,056	704,040
OTHER LIABILITIES		
Deferred rent	324,158	390,075
Sublease liability	121,511	145,933
Paycheck Protection Program loan	<u>641,765</u>	<u>600,700</u>
Total other liabilities	1,087,434	1,136,708
LIABILITIES OF DISCONTINUED OPERATIONS	794,957	162,143
NET ASSETS		
Without donor restrictions	(192,329)	(318,675)
With donor restrictions	<u>225,000</u>	<u>2,169,605</u>
Total net assets	<u>32,671</u>	<u>1,850,930</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,262,118</u>	<u>\$3,853,821</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Totals
<b>REVENUE AND SUPPORT</b>			
Grant revenue	\$ 2,572,841	\$ -	\$ 2,572,841
Miscellaneous income	13,876	-	13,876
Net assets released from restrictions	<u>2,144,605</u>	<u>(2,144,605)</u>	<u>-</u>
Total revenue and support	4,731,322	(2,144,605)	2,586,717
<b>EXPENSES</b>			
Program	2,872,599	-	2,872,599
General and administrative	1,211,944	-	1,211,944
Fundraising	<u>38,129</u>	<u>-</u>	<u>38,129</u>
Total expenses	<u>4,122,672</u>	<u>-</u>	<u>4,122,672</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER INCOME (EXPENSE)</b>	608,650	(2,144,605)	(1,535,955)
<b>OTHER INCOME (EXPENSE)</b>			
Sublease income	46,430	-	46,430
(Loss) gain on discontinued operations	(1,495,685)	200,000	(1,295,685)
Loss on disposal of property and equipment	(560)	-	(560)
Employee Retention Tax Credit	366,811	-	366,811
Gain on debt forgiveness	<u>600,700</u>	<u>-</u>	<u>600,700</u>
Total other income (expense)	<u>(482,304)</u>	<u>200,000</u>	<u>(282,304)</u>
<b>CHANGE IN NET ASSETS</b>	126,346	(1,944,605)	(1,818,259)
<b>NET ASSETS – BEGINNING OF YEAR</b>	<u>(318,675)</u>	<u>2,169,605</u>	<u>1,850,930</u>
<b>NET ASSETS – END OF YEAR</b>	<u>\$ (192,329)</u>	<u>\$ 225,000</u>	<u>\$ 32,671</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals
<b>REVENUE AND SUPPORT</b>			
Grant revenue	\$ 1,071,444	\$ 875,000	\$ 1,946,444
Miscellaneous income	61,327	-	61,327
Net assets released from restrictions	<u>3,086,271</u>	<u>(3,086,271)</u>	<u>-</u>
Total revenue and support	4,219,042	(2,211,271)	2,007,771
<b>EXPENSES</b>			
Program	3,029,342	-	3,029,342
General and administrative	1,226,185	-	1,226,185
Fundraising	<u>74,593</u>	<u>-</u>	<u>74,593</u>
Total expenses	<u>4,330,120</u>	<u>-</u>	<u>4,330,120</u>
CHANGE IN NET ASSETS BEFORE OTHER INCOME (EXPENSE)	(111,078)	(2,211,271)	(2,322,349)
<b>OTHER INCOME (EXPENSE)</b>			
Sublease income	18,000	-	18,000
(Loss) gain on discontinued operations	(67,649)	75,000	7,351
Loss on disposal of property and equipment	(8,580)	-	(8,580)
Loss on sublease	<u>(182,805)</u>	<u>-</u>	<u>(182,805)</u>
Total other income (expense)	<u>(241,034)</u>	<u>75,000</u>	<u>(166,034)</u>
CHANGE IN NET ASSETS	(352,112)	(2,136,271)	(2,488,383)
NET ASSETS – BEGINNING OF YEAR	<u>33,437</u>	<u>4,305,876</u>	<u>4,339,313</u>
NET ASSETS – END OF YEAR	<u>\$ (318,675)</u>	<u>\$ 2,169,605</u>	<u>\$ 1,850,930</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, 2021

	Engaged Practice and Employee Ownership	Anchor Institutions	Theory, Research and Policy	Total Program	General and Administrative	Fundraising	Total
<b>OPERATING EXPENSES</b>							
Payroll and related	\$ 88,237	\$ 1,175,605	\$ 1,554,819	\$ 2,818,661	\$ 658,505	\$ 30,681	\$ 3,507,847
Contractors and consultants	85,290	418,337	448,007	951,634	219,663	1,822	1,173,119
Settlement fee	-	1,019,111	-	1,019,111	49,684	-	1,068,795
Grant expense	-	450,000	28,727	478,727	-	-	478,727
Office expense	12,441	88,237	73,950	174,628	120,247	420	295,295
Computer and software	2,434	27,381	5,671	35,486	61,357	3,378	100,221
Depreciation	790	15,957	13,846	30,593	46,992	90	77,675
Travel and meals	227	36,939	30,090	67,256	4,205	1,738	73,199
Subscriptions, memberships and fees	1,131	7,400	12,397	20,928	26,060	-	46,988
Printing and mailing	2,521	23,578	3,074	29,173	4,855	-	34,028
Miscellaneous	-	566	11,266	11,832	20,376	-	32,208
Total expenses by function	193,071	3,263,111	2,181,847	5,638,029	1,211,944	38,129	6,888,102
Less expenses included with other expense on statement of activities	(15,780)	(2,749,650)	-	(2,765,430)	-	-	(2,765,430)
Total operating expenses	<u>\$ 177,291</u>	<u>\$ 513,461</u>	<u>\$ 2,181,847</u>	<u>\$ 2,872,599</u>	<u>\$ 1,211,944</u>	<u>\$ 38,129</u>	<u>\$ 4,122,672</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, 2020

	Engaged Practice and Employee Ownership	Anchor Institutions	Theory, Research and Policy	Total Program	General and Administrative	Fundraising	Total
<b>OPERATING EXPENSES</b>							
Payroll and related	\$ 459,743	\$ 1,006,858	\$ 1,540,791	\$ 3,007,392	\$ 821,124	\$ 42,822	\$ 3,871,338
Contractors and consultants	99,378	373,054	299,848	772,280	251,210	11,583	1,035,073
Office expense	31,410	68,567	74,792	174,769	107,780	1,836	284,385
Computer and software	5,393	17,278	6,268	28,939	62,759	3,375	95,073
Depreciation	7,786	20,301	23,653	51,740	26,302	473	78,515
Travel and meals	2,609	17,233	24,080	43,922	14,871	14,244	73,037
Subscriptions, memberships and fees	31	4,487	26,250	30,768	3,893	-	34,661
Printing and mailing	14,059	32,746	21,776	68,581	6,078	260	74,919
Miscellaneous	17	17	12,093	12,127	31,046	-	43,173
Total expenses by function	620,426	1,540,541	2,029,551	4,190,518	1,325,063	74,593	5,590,174
Less expenses included with other expense on statement of activities	(208,414)	(952,762)	-	(1,161,176)	(98,878)	-	(1,260,054)
Total operating expenses	<u>\$ 412,012</u>	<u>\$ 587,779</u>	<u>\$ 2,029,551</u>	<u>\$ 3,029,342</u>	<u>\$ 1,226,185</u>	<u>\$ 74,593</u>	<u>\$ 4,330,120</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$(1,818,259)	\$(2,488,383)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	77,675	78,515
Loss on disposal of property and equipment	560	8,580
Loss on disposal of property and equipment - discontinued operations	5,579	-
Gain on debt forgiveness	(600,700)	-
(Increase) decrease in assets:		
Pledges receivable	1,214,256	1,979,760
Service receivables	255	4,913
Other receivables	(104,506)	52,810
Employee Retention Tax Credit receivable	(366,811)	-
Prepaid expenses	(27,039)	(37,081)
Other assets	4,256	135
Assets of discontinued operations	(164,555)	32,828
Increase (decrease) in liabilities:		
Accounts payable	(73,127)	(71,155)
Accrued expenses	(28,271)	(46,158)
Deferred revenue	(256,830)	187,636
Deferred rent	(65,917)	(60,737)
Sublease liability	(23,178)	169,111
Liabilities of discontinued operations	632,814	19,668
Total adjustments	<u>224,461</u>	<u>2,318,825</u>
Net cash used in operating activities	(1,593,798)	(169,558)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(12,228)	(12,213)
Proceeds from sale of property and equipment	<u>-</u>	<u>2,000</u>
Net cash used in investing activities	(12,228)	(10,213)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Paycheck Protection Program loan	<u>641,765</u>	<u>600,700</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(964,261)	420,929
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>	<u>2,060,543</u>	<u>1,639,614</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 1,096,282</u>	<u>\$ 2,060,543</u>

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 \$225,000 and \$2,169,605 as of December 31, 2021 and 2020, 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, 2021 and 2020.

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. Revenue Recognition – Grant revenue is recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Grants 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 grant is recognized. All other donor-restricted grants are reported as increases in net assets with donor restrictions. Pledges outstanding at December 31, 2021 and 2020 are expected to be received as follows: \$25,000 and \$1,191,063 in less than one year and \$-0- and \$50,000 in one to two years, respectively. Pledges outstanding related to discontinued operations at December 31, 2021 and 2020 are expected to be received in less than one year and amount to \$200,000 and \$10,000, respectively (Note 8). A discount rate of 3.75% was utilized for pledges receivable beyond one year, which reduced the balances by \$-0- and \$1,807, 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. Conditional promises are recorded when the donor stipulations are substantially met. The Organization has recorded deferred revenue of \$71,668 and \$332,530 in relation to conditional grants at December 31, 2021 and 2020, respectively.

Miscellaneous income relates to publications, royalties, and speaking honorariums and is recognized at a point in time when performance obligations have been met.

F. 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.

G. 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.

H. Change in Accounting Principle – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, which may change the Organization's statements of financial position by requiring lessees to recognize most leases as a lease liability and corresponding right-of-use asset per the financial statements. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for the Organization for fiscal years beginning after December 15, 2021 with early adoption permitted. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

I. Functional Expenses – The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present 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)**

- J. Reclassifications – Certain reclassifications have been made to prior year's balances to conform to the current year presentation.
- K. Subsequent Events – The Organization has evaluated subsequent events through November 8, 2022, which is the date the financial statements were available to be issued.

**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, 2021 and 2020, the Organization has cash and cash equivalents, pledges receivable, service receivables, and other 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 grant 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. The Organization also has a line of credit with PNC Bank available for maximum borrowings of \$300,000, which is available for operating purposes (Note 4).

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$1,096,282	\$2,060,543
Pledges receivable, net	25,000	1,191,063
Service receivables, net	-	255
Other receivables	104,506	-
Employee Retention Tax Credit receivable	<u>366,811</u>	<u>-</u>
	<u>\$1,592,599</u>	<u>\$3,251,861</u>

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

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specific purpose:		
Theory, Research and Policy Programs	\$ -	\$ 472,041
Engaged Practice and Employee Ownership Programs	-	130,558
Anchor Institution Programs	<u>-</u>	<u>317,750</u>
	-	920,349
Promises to give, subject to expenditure for specific purpose:		
Theory, Research and Policy Programs	25,000	289,256
Engaged Practice and Employee Ownership Programs	-	950,000
Anchor Institution Programs - discontinued	<u>200,000</u>	<u>10,000</u>
	<u>225,000</u>	<u>1,249,256</u>
	<u>\$ 225,000</u>	<u>\$2,169,605</u>

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 4. Line of Credit**

The Organization has a line of credit with PNC Bank available for maximum borrowings of \$300,000, which is available for operating purposes. This line of credit bears interest at the prime rate plus 0.05%, which was equal to 3.30% at December 31, 2021. The Organization had no borrowings against this line at December 31, 2021 and 2020.

**Note 5. 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 unless they affirmatively elect not to participate in the plan. The Organization contributes 7% of each eligible employee's gross pay. The Organization contributed \$176,450 and \$196,891 for the years ended December 31, 2021 and 2020, respectively.

**Note 6. Sublease**

In 2017, the Organization entered into a ten year lease for office space in Cleveland, Ohio which will terminate in 2027. The lease for the Cleveland office requires monthly rent of \$5,609 with annual increases. Future minimum rental payments under the lease are as follows:

<u>For the year ended December 31,</u>	
2022	\$76,685
2023	77,739
2024	95,911
2025	79,847
2026	80,901
Thereafter	20,291

As of July 2020, the Organization vacated this building and entered into a sublease with an unrelated party for the remaining term of the lease. Under the terms of the sublease, the Organization will receive rental payments, subject to escalations for real estate taxes and certain operating costs, as follows:

<u>For the year ended December 31,</u>	
2022	\$47,316
2023	48,017
2024	65,847
2025	49,452
2026	50,185
Thereafter	12,720

The lease expense will be offset by payments due under the sublease. The Organization has recorded a net sublease liability of \$145,933 and \$169,111 at December 31, 2021 and 2020, respectively, and recorded a net loss of \$182,805 for the year ended December 31, 2020.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Sublease (Continued)**

Rent payments made by the Organization under this lease were \$71,016 and \$70,024 for the years ended December 31, 2021 and 2020, respectively. Straight-line lease expense under this lease was \$71,757 for the years ended December 31, 2021 and 2020, resulting in a deferred rent liability of \$12,248 and \$11,507 at December 31, 2021 and 2020, respectively. Rental income under the sublease agreement for the years ended December 31, 2021 and 2020 was \$46,430 and \$18,000, respectively.

At the inception of the lease, the Organization also received a tenant improvement allowance of \$194,545 in the lease. Lease expense was reduced by the amortization of the tenant improvement allowance of \$19,455 for the years ended December 31, 2021 and 2020. Included in deferred rent at December 31, 2021 and 2020 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$102,135 and \$121,590, respectively.

**Note 7. Operating Lease**

In 2016, the Organization entered into a ten year lease terminating in May 2026 for office 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 \$190,424 and \$186,236 for the years ended December 31, 2021 and 2020, respectively. Straight-line lease expense under this lease was \$174,721 for the years ended December 31, 2021 and 2020, resulting in a deferred rent liability of \$121,605 and \$137,308 at December 31, 2021 and 2020, respectively. Lease expense was reduced by the amortization of the tenant improvement allowance of \$31,500 for the years ended December 31, 2021 and 2020. Included in deferred rent at December 31, 2021 and 2020 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$139,125 and \$170,625, respectively.

At December 31, 2021, the minimum future rental payments on these operating lease agreements are as follows:

<u>For the year ended December 31,</u>	
2022	\$194,714
2023	199,095
2024	203,575
2025	208,155
2026	87,765

**Note 8. Discontinued Operations**

In 2020, the Organization resolved to discontinue consulting services due to its lack of financial sustainability. The Organization expects completion of disposal in 2022. The related operating results have been separated from the continuing operations of the Organization and are presented net as a loss from discontinued operations. For the years ended 2021 and 2020, net consulting revenue was \$41,995 and \$111,607, respectively. In addition, for years ended 2021 and 2020, total expenses related to consulting services were \$15,780 and \$313,912, respectively. Cost of discontinuance primarily consisted of severance and legal fees which totaled \$-0- and \$112,788 for the years ended 2021 and 2020, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 8. Discontinued Operations (Continued)**

In 2021, the Organization resolved to separate from one of its anchor institution programs, the Healthcare Anchor Network ("HAN"). The Organization expects completion of disposal in 2022. The related operating results have been separated from the continuing operations of the Organization and are presented net as a (loss) gain on discontinued operations. For the years ended 2021 and 2020, net service revenue from HAN was \$1,427,750 and \$1,155,798, respectively. In addition, for years ended 2021 and 2020 total expenses related to HAN were \$2,749,650 and \$946,142, respectively. Cost of discontinuance primarily consisted of a separation agreement fee of \$1,000,000 and \$-0- for the years ended 2021 and 2020, respectively.

The assets and liabilities related to consulting services are presented in the statements of financial position and consist of the following components:

	<u>2021</u>	<u>2020</u>
Assets of discontinued operations:		
Pledges receivable	\$200,000	\$ 10,000
Service receivables	46,906	44,741
Other receivables	-	3,000
Prepaid expenses	-	19,111
Net property and equipment	-	5,499
	<u>246,906</u>	<u>82,351</u>
Liabilities of discontinued operations:		
Accounts payable	\$ 7,894	\$ -
Accrued expenses	21,311	-
Deferred revenue	15,752	162,143
Settlement payable	550,000	-
Grant payable	<u>200,000</u>	<u>-</u>
	<u>794,957</u>	<u>162,143</u>

**Note 9. Coronavirus Aid, Relief and Economic Security Act**

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security ("CARES") Act. The CARES Act, among other things, created the Paycheck Protection Program ("PPP") to be administered by the U.S. Small Business Administration ("SBA"). In 2020, the Organization received a \$600,700 unsecured loan under the PPP. In May 2021, the loan was fully forgiven by the SBA and recognized as a gain on debt forgiveness in the statement of activities. In 2021, the Organization received a second PPP loan of \$641,765 under the CARES Act. Provisions of the PPP allow for partial or full forgiveness of the loan provided the proceeds are used for covered expenditures and certain other requirements are satisfied. As of July 2022, the loan has been fully forgiven by the SBA. The entire balance is recorded as a liability as of December 31, 2021 and will be recognized as income in January 2022.



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 9. Coronavirus Aid, Relief and Economic Security Act (Continued)**

The CARES Act also created the Employee Retention Tax Credit ("ERTC") for a refundable payroll tax credit. The Organization is accounting for the ERTC in accordance with the ASC 958-605 as a conditional contribution. In 2021, the Organization applied to the IRS for an ERTC of \$366,811 for the quarters ending March 31, 2021 and June 30, 2021. As of December 31, 2021, the entire amount is included as a receivable in the statement of financial position and is included as other income in the statement of activities. The entire amount was received in November 2022.

**Note 10. Operational Sustainability**

The philanthropic environment has been impacted by the combined national and international public health crisis, economic distress, and racial injustice. The Organization has been directly impacted by these challenges and has taken measures to secure funding and reduce costs. The Organization has budgeted conservatively and plans to operate within those budgets. Grant funding between \$700,000 to \$1,200,000 is likely to be awarded by December 2022, with additional prospects being aggressively pursued. The Organization also received \$366,811 in funding for the ERTC in 2022 (Note 9). In November 2022, the Organization eliminated various employees and contractors to reduce monthly expenses by approximately \$100,000. Management, along with the Board of Directors, is managing cash flow carefully. This includes drawing on an existing line of credit (Note 4) based on firm funding commitments and repaying borrowings with grant monies received.

The Organization is in the process of developing a business plan for 2023 and beyond that focuses on diversifying revenue streams to include legacy funders, new grant sources, and consulting and project revenue. The Organization has confirmed grant funding of \$1,700,000 in 2023 and \$1,450,000 in 2024 from various grantors. The Organization will focus its program work within two areas: Community Wealth Building and Democratic Economy Policy and Strategy. The Organization sees opportunities to have its theories and strategies implemented at a broad scale through work with various entities, ranging from universities, cities, and federal agencies. The Organization has history and prospects in each of these areas and plans to develop systems to generate more opportunities. The Organization will build operating, marketing, and accountability systems to support the plan and to operate within the current scale of employees. The Organization will monitor performance against annual budgets and goals, adjusting as needed.