

**THE DEMOCRACY COLLABORATIVE
FOUNDATION, INC.**

FINANCIAL REPORT

DECEMBER 31, 2016

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to financial statements	5-8

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, 2016, and the related statements of activities and cash flows for the year 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 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 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Cleveland, Ohio
September 7, 2017

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2016

<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	\$1,106,679
Loan receivable	50,000
Pledge receivable	1,832,965
Other receivables	45,663
Prepaid expenses	29,714
Total current assets	<u>3,065,021</u>
OTHER ASSETS	15,125
PLEDGE RECEIVABLE, NET	738,750
PROPERTY AND EQUIPMENT	
Computer equipment	21,113
Office furniture	47,296
Leasehold improvements	306,826
	<u>375,235</u>
Less: accumulated depreciation	23,678
Net property and equipment	<u>351,557</u>
TOTAL ASSETS	<u><u>\$4,170,453</u></u>
 <u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 101,038
Accrued expenses	90,222
Deferred revenue	25,000
Deferred rent	31,500
Total current liabilities	<u>247,760</u>
DEFERRED RENT	359,735
NET ASSETS	
Unrestricted	1,815,516
Temporarily restricted	1,747,442
Total net assets	<u>3,562,958</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$4,170,453</u></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>
REVENUE AND SUPPORT			
Grant revenue	\$3,472,882	\$ 842,430	\$4,315,312
Service income	522,105	-	522,105
Net assets released from restrictions	<u>1,227,391</u>	<u>(1,227,391)</u>	<u>-</u>
Total revenue and support	5,222,378	(384,961)	4,837,417
EXPENSES			
Payroll and related	2,412,681	-	2,412,681
Project expenses	1,034,014	-	1,034,014
Management and general	338,003	-	338,003
Contract services	113,322	-	113,322
Rent expense	125,150	-	125,150
Miscellaneous	<u>1,492</u>	<u>-</u>	<u>1,492</u>
Total expenses	<u>4,024,662</u>	<u>-</u>	<u>4,024,662</u>
CHANGE IN NET ASSETS	1,197,716	(384,961)	812,755
NET ASSETS – BEGINNING OF YEAR	<u>617,800</u>	<u>2,132,403</u>	<u>2,750,203</u>
NET ASSETS – END OF YEAR	<u>\$1,815,516</u>	<u>\$1,747,442</u>	<u>\$3,562,958</u>

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

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 812,755
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	22,949
(Increase) decrease in assets:	
Pledge receivable	(568,360)
Prepaid expenses	(30,253)
Increase (decrease) in liabilities:	
Accounts payable	41,392
Accrued expenses	(6,599)
Deferred revenue	25,000
Deferred rent	<u>391,235</u>
Total adjustments	<u>(124,636)</u>
Net cash provided by operating activities	688,119
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(364,053)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment on debt	<u>(100,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	224,066
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>882,613</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$1,106,679</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 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 \$1,747,442 as of December 31, 2016.

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, 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 statement 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 Equivalents – The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Organization maintains at various financial institutions cash and 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, 2016 are expected to be received as follows: \$1,832,965 in less than one year and \$771,879 in one to two years. A discount rate of 3.75% was utilized for pledges receivable beyond one year, which reduced the balance by \$33,129. No allowance for doubtful accounts was deemed necessary by management based on a review of outstanding accounts 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, 2016, the Organization recorded deferred revenue of \$25,000 in relation to these contracts.
- G. Property and Equipment – Property, plant 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. Subsequent Events – The Organization has evaluated subsequent events through September 7, 2017, 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:

	Beginning Balance	Additions	Net Assets Released	Ending Balance
Next System Project - General	\$1,500,000	\$ 5,000	\$ (755,000)	\$ 750,000
Social Enterprise	500,000	-	(55,162)	444,838
Hospitals Aligned for Healthy Communities	132,403	-	(132,403)	-
Anchor Mission Convening	-	49,280	(49,280)	-
Learning/Action Lab for Community Wealth Building	-	200,000	(44,575)	155,425
Money Matters	-	169,900	(45,652)	124,248
Next Street	-	144,000	(60,000)	84,000
Next System Project Solutions	-	7,500	(7,500)	-
Next System Project Website	-	166,750	(7,396)	159,354
The Anchor Dashboard	-	100,000	(70,423)	29,577
	<u>\$2,132,403</u>	<u>\$ 842,430</u>	<u>\$(1,227,391)</u>	<u>\$1,747,442</u>

Note 3. Loan Receivable

The Organization issued an interest-free note to an outside party in 2015 in the amount of \$100,000. The receivable balance at December 31, 2016 was \$50,000. No allowance for doubtful accounts was deemed necessary by management.

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 \$139,530 for the year ended December 31, 2016.

Note 5. Functional Expenses

The Organization's functional expense classification for the year ended December 31, 2016 is as follows:

Program expenses	\$2,397,689
Management and general	1,173,271
Fundraising	<u>451,771</u>
	<u>\$4,022,731</u>

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 is \$1,090 and the lease expires in 2017, upon which a new lease will commence. The new lease will have monthly rent of \$5,609 with annual increases and will terminate in 2026.

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 and straightline lease expense under this lease were \$7,313 and \$101,923, respectively, for the year ended December 31, 2016, resulting in a deferred rent liability of \$94,610 at December 31, 2016. Lease expense was reduced by the amortization of the tenant improvement allowance of \$18,375 for the year ended December 31, 2016. Included in deferred rent at December 31, 2016 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$296,625.

At December 31, 2016, the minimum future rental payments on these operating lease agreements are as follows:

<u>For the year ended December 31,</u>	
2017	\$ 175,430
2018	248,911
2019	252,830
2020	256,428
2021	261,608
Thereafter	1,219,591

Total lease expense for the year ended December 31, 2016 was \$140,276.