

**THE DEMOCRACY COLLABORATIVE
FOUNDATION, INC.**

FINANCIAL REPORT

DECEMBER 31, 2019 and 2018

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, 2019 and 2018, 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.

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, 2019 and 2018, 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
November 19, 2020

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$1,639,614	\$2,168,124
Pledges receivable, net	2,411,481	2,003,302
Service receivables, less allowance of \$10,000 in 2019 and \$2,132 in 2018	82,737	92,613
Other receivables	55,810	10,020
Prepaid expenses	35,301	94,930
Total current assets	<u>4,224,943</u>	<u>4,368,989</u>
OTHER ASSETS	19,516	23,143
PLEDGES RECEIVABLE, NET	817,535	1,175,477
PROPERTY AND EQUIPMENT		
Computer equipment	76,853	49,729
Office furniture	96,669	74,506
Leasehold improvements	532,823	532,823
	<u>706,345</u>	<u>657,058</u>
Less: accumulated depreciation	225,200	151,239
Net property and equipment	<u>481,145</u>	<u>505,819</u>
TOTAL ASSETS	<u>\$5,543,139</u>	<u>\$6,073,428</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 199,596	\$ 164,004
Accrued expenses	215,094	177,066
Deferred revenue	287,369	20,000
Deferred rent	50,955	50,955
Total current liabilities	<u>753,014</u>	<u>412,025</u>
DEFERRED RENT	450,812	506,461
NET ASSETS		
Without donor restrictions	33,437	(665,690)
With donor restrictions	<u>4,305,876</u>	<u>5,820,632</u>
Total net assets	<u>4,339,313</u>	<u>5,154,942</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,543,139</u>	<u>\$6,073,428</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUE AND SUPPORT			
Grant revenue	\$ 704,275	\$ 3,699,375	\$ 4,403,650
Service income	1,089,243	-	1,089,243
Net assets released from restrictions	<u>5,214,131</u>	<u>(5,214,131)</u>	<u>-</u>
Total revenue and support	7,007,649	(1,514,756)	5,492,893
EXPENSES			
Program	5,137,719	-	5,137,719
General and administrative	1,080,417	-	1,080,417
Fundraising	<u>90,386</u>	<u>-</u>	<u>90,386</u>
Total expenses	<u>6,308,522</u>	<u>-</u>	<u>6,308,522</u>
CHANGE IN NET ASSETS	699,127	(1,514,756)	(815,629)
NET ASSETS – BEGINNING OF YEAR	<u>(665,690)</u>	<u>5,820,632</u>	<u>5,154,942</u>
NET ASSETS – END OF YEAR	<u>\$ 33,437</u>	<u>\$ 4,305,876</u>	<u>\$ 4,339,313</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
REVENUE AND SUPPORT			
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
EXPENSES			
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>
CHANGE IN NET ASSETS	(1,184,847)	5,054,042	3,869,195
NET ASSETS – BEGINNING OF YEAR	<u>519,157</u>	<u>766,590</u>	<u>1,285,747</u>
NET ASSETS – END OF YEAR	<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 FUNCTIONAL EXPENSES

	Engaged Practice and Employee Ownership	Anchor Institution	Theory, Research and Policy	Total Program	General and Administrative	Fundraising	Total
OPERATING EXPENSES							
Payroll and related	\$ 463,345	\$ 842,262	\$1,748,162	\$3,053,769	\$ 468,665	\$ 58,730	\$3,581,164
Contractors and consultants	117,918	371,844	559,971	1,049,733	235,111	1,350	1,286,194
Travel and meals	51,820	156,549	294,133	502,502	100,846	24,331	627,679
Office expense	24,666	75,041	152,889	252,596	144,433	2,094	399,123
Printing and mailing	4,101	28,516	68,922	101,539	11,962	574	114,075
Subscriptions, memberships and fees	8,413	10,508	53,660	72,581	13,978	1,751	88,310
Computer and software	1,286	13,677	14,543	29,506	41,112	458	71,076
Depreciation	6,578	15,332	25,842	47,752	27,030	598	75,380
Miscellaneous	2,012	1,992	23,737	27,741	37,280	500	65,521
Total operating expenses	<u>\$ 680,139</u>	<u>\$1,515,721</u>	<u>\$2,941,859</u>	<u>\$5,137,719</u>	<u>\$1,080,417</u>	<u>\$ 90,386</u>	<u>\$6,308,522</u>

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

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

	Engaged Practice and Employee Ownership	Anchor Institution	Theory, Research and Policy	Total Program	General and Administrative	Fundraising	Total
OPERATING EXPENSES							
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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (815,629)	\$ 3,869,195
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	75,380	69,194
Loss on disposal of property and equipment	1,350	2,140
(Increase) decrease in assets:		
Pledges receivable	(50,237)	(1,809,491)
Service receivables	9,876	(61,611)
Other receivables	(45,790)	980
Prepaid expenses	59,629	(50,511)
Other assets	3,627	(8,018)
Increase (decrease) in liabilities:		
Accounts payable	35,592	31,619
Accrued expenses	38,028	7,627
Deferred revenue	267,369	20,000
Deferred rent	(55,649)	(50,651)
Total adjustments	<u>339,175</u>	<u>(1,848,722)</u>
Net cash (used in) provided by operating activities	<u>(476,454)</u>	<u>2,020,473</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(52,056)	(28,081)
Repayment of loan receivable	-	25,000
Net cash used in investing activities	<u>(52,056)</u>	<u>(3,081)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(528,510)	2,017,392
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>2,168,124</u>	<u>150,732</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u><u>\$ 1,639,614</u></u>	<u><u>\$ 2,168,124</u></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 \$4,305,876 and \$5,820,632 as of December 31, 2019 and 2018, 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, 2019 and 2018.

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 – 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, 2019 and 2018 are expected to be received as follows: \$2,411,481 and \$2,003,302 in less than one year and \$850,000 and \$1,219,556 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 \$32,465 and \$44,079, 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, 2019 and 2018, the Organization recorded deferred revenue of \$54,461 and \$20,000, 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. Change in Accounting Principle – In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance clarifies the definition of an exchange transaction and the criteria for evaluating whether contributions are unconditional or conditional. Effective January 1, 2019, the Organization adopted ASU 2018-08 using the modified prospective transition method. In accordance with this new guidance, the Organization has recorded deferred revenue of \$232,908 in relation to conditional grants at December 31, 2019.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance under accounting principles generally accepted in the United States of America. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On May 20, 2020, FASB extended the effective date of this standard by one year due to the coronavirus pandemic (Note 8). The Organization will now adopt this standard using the modified retrospective method as of January 1, 2020. The Organization is continuing to evaluate the potential impact of this standard on the financial statements.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Change in Accounting Principle (Continued)

In February 2016, FASB issued ASU 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.

J. 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.

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 November 19, 2020, 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, 2019 and 2018, 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 5).

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$1,639,614	\$2,168,124
Pledges receivable, net	2,411,481	2,003,302
Service receivables, net	82,737	92,613
Other receivables	<u>55,810</u>	<u>10,020</u>
	<u>\$4,189,642</u>	<u>\$4,274,059</u>

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Net Assets With Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purpose:		
Theory, Research and Policy Programs	\$ 276,244	\$1,929,006
Engaged Practice and Employee Ownership Programs	364,327	225,446
Anchor Institution Programs	<u>436,289</u>	<u>487,401</u>
	1,076,860	2,641,853
Promises to give, subject to expenditure for specific purpose:		
Theory, Research and Policy Programs	1,289,069	2,002,127
Engaged Practice and Employee Ownership Programs	1,547,892	200,000
Anchor Institution Programs	<u>392,055</u>	<u>976,652</u>
	<u>3,229,016</u>	<u>3,178,779</u>
	<u>\$4,305,876</u>	<u>\$5,820,632</u>

Note 4. Loan Receivable

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

Note 5. 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 4.80% at December 31, 2019. The Organization had no borrowings against this line at December 31, 2019 and 2018.

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 \$184,744 and \$176,745 for the years ended December 31, 2019 and 2018, 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 2023. The Washington D.C. copier lease requires monthly payments of \$128 through 2023.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 7. Operating Leases (Continued)

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 \$69,035 and \$68,045 for the years ended December 31, 2019 and 2018, respectively. Straight-line lease expense under this lease was \$71,757 for the years ended December 31, 2019 and 2018, resulting in a deferred rent liability of \$9,774 and \$7,052 at December 31, 2019 and 2018, respectively. Lease expense was reduced by the amortization of the tenant improvement allowance of \$19,455 for the years ended December 31, 2019 and 2018. Included in deferred rent at December 31, 2019 and 2018 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$141,045 and \$160,500, respectively. As of July 2020, the Organization has vacated this building and entered into a sublease with an unrelated party for the remaining term of the lease.

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 \$182,140 and \$178,132 for the years ended December 31, 2019 and 2018, respectively. Straight-line lease expense under this lease was \$174,721 for the years ended December 31, 2019 and 2018, resulting in a deferred rent liability of \$148,823 and \$156,238 at December 31, 2019 and 2018, respectively. Lease expense was reduced by the amortization of the tenant improvement allowance of \$31,498 for the years ended December 31, 2019 and 2018. Included in deferred rent at December 31, 2019 and 2018 was the remaining unamortized balance of the tenant improvement allowance in the amount of \$202,125 and \$233,626, respectively.

At December 31, 2019, the minimum future rental payments on these operating lease agreements are as follows:

<u>For the year ended December 31,</u>	
2020	\$259,518
2021	264,698
2022	269,972
2023	273,992
2024	277,558
Thereafter	465,910

Total lease expense for the years ended December 31, 2019 and 2018 was \$203,309 and \$202,553, respectively.

Note 8. Coronavirus ("COVID-19") and Paycheck Protection Program

On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. The pandemic has adversely affected domestic and global economic activity and the full impact continues to evolve as of the date of this report.

THE DEMOCRACY COLLABORATIVE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 8. Coronavirus ("COVID-19") and Paycheck Protection Program (Continued)

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. In 2020, the Organization received a \$600,700 unsecured loan under the PPP. 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. The unforgiven portion of the loan, if any, is payable in eighteen monthly installments (plus interest at a rate of 1% per annum) commencing seven months from the loan disbursement date. The Organization expects all or nearly all of the loan to be forgiven.