

Democracy North Carolina

FINANCIAL STATEMENTS

December 31, 2017 and 2016

C. W. DUNN & ASSOCIATES, CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PITTSBORO, NORTH CAROLINA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Democracy North Carolina
Durham, North Carolina

We have audited the accompanying financial statements of Democracy North Carolina (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, 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.

Auditor's 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 auditor's 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 auditor considers 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 Democracy North Carolina 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.

Pittsboro, North Carolina
May 9, 2018

FINANCIAL STATEMENTS

**DEMOCRACY NORTH CAROLINA
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016**

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 247,088	\$ 124,855
Certificates of deposit	254,832	251,541
Grants receivable	825,000	515,000
Pledges receivable	104,500	-
Rent receivable	225	-
Sales tax receivable	15,429	16,786
Prepaid expenses	54,028	16,390
Total current assets	1,501,102	924,572
PROPERTY AND EQUIPMENT		
Building and improvements	295,513	295,513
Equipment	52,261	45,463
Vehicles	25,858	25,858
Total	373,632	366,834
Less accumulated depreciation	(136,688)	(120,960)
Net property and equipment	236,944	245,874
INVESTMENTS		
Long-term investments, net	285,519	159,994
Total investments	285,519	159,994
TOTAL ASSETS	\$ 2,023,565	\$ 1,330,438
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,833	\$ 8,312
Accrued expenses	25,329	30,055
Accrued reimbursement	-	32,060
Payroll liabilities payable	225	2,833
Security deposits	354	354
Total current liabilities	27,741	73,614
NET ASSETS		
Without donor restrictions	880,806	621,831
Board-designated reserve fund	285,519	159,994
With donor restrictions	829,500	475,000
Total net assets	1,995,825	1,256,825
TOTAL LIABILITIES AND NET ASSETS	\$ 2,023,565	\$ 1,330,438

See accompanying notes.

DEMOCRACY NORTH CAROLINA
STATEMENT OF ACTIVITIES AND CHANGES IN ASSETS
For the Year Ended December 31, 2017

	2017		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions from grants	\$ 1,318,375	\$ 725,000	\$2,043,375
Contributions from individuals	693,037	104,500	797,537
Research and honoraria income	6,668	-	6,668
Rent income	7,590	-	7,590
Interest income	6,420	-	6,420
Gain on disposition	455	-	455
Unrealized gain on investments	27,129	-	27,129
	<u>2,059,674</u>	<u>829,500</u>	<u>2,889,174</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions	<u>475,000</u>	<u>(475,000)</u>	<u>-</u>
Total revenues, gains, and other support	<u>2,534,674</u>	<u>354,500</u>	<u>2,889,174</u>
EXPENSES			
Program services	1,865,864	-	1,865,864
General and administrative	187,270	-	187,270
Fundraising	97,040	-	97,040
	<u>2,150,174</u>	<u>-</u>	<u>2,150,174</u>
CHANGE IN NET ASSETS	384,500	354,500	739,000
NET ASSETS - BEGINNING OF YEAR	<u>781,825</u>	<u>475,000</u>	<u>1,256,825</u>
NET ASSETS - END OF YEAR	<u>\$ 1,166,325</u>	<u>\$ 829,500</u>	<u>\$ 1,995,825</u>

See accompanying notes.

DEMOCRACY NORTH CAROLINA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2016

	2016		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions from grants	\$ 2,220,000	\$ 475,000	\$ 2,695,000
Contributions from individuals	618,187	-	618,187
Research and honoraria income	1,589	-	1,589
Rent income	9,665	-	9,665
Interest income	4,883	-	4,883
Unrealized gain on investments	12,508	-	12,508
	<u>2,866,832</u>	<u>475,000</u>	<u>3,341,832</u>
EXPENSES			
Program services	2,482,723	-	2,482,723
General and administrative	186,684	-	186,684
Fundraising	122,431	-	122,431
	<u>2,791,839</u>	<u>-</u>	<u>2,791,839</u>
CHANGE IN NET ASSETS	74,993	475,000	549,993
NET ASSETS - BEGINNING OF YEAR	<u>706,832</u>	<u>-</u>	<u>706,832</u>
NET ASSETS - END OF YEAR	<u>\$ 781,825</u>	<u>\$ 475,000</u>	<u>\$ 1,256,825</u>

See accompanying notes.

DEMOCRACY NORTH CAROLINA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	Program	General and Administrative	Fundraising	Total
Salaries	\$ 898,967	\$ 108,309	\$ 75,817	\$ 1,083,093
Other employee expenses	80,447	9,692	6,785	96,924
Payroll taxes	70,093	8,445	5,911	84,449
Advertising	73,076	-	-	73,076
Meetings and events	50,615	24,932	-	75,547
Consultants/Contractors	130,115	-	-	130,115
Lobbying	9,000	-	-	9,000
Dues and subscriptions	8,951	995	-	9,945
Insurance	9,110	6,073	-	15,183
Licenses and permits	1,576	175	-	1,751
Professional fees	11,538	1,282	-	12,820
Interest and fees	4,441	493	-	4,934
Occupancy	26,763	3,224	2,257	32,244
Outreach grant and coalitions	337,960	-	-	337,960
Postage	20,883	444	889	22,216
Printing, publications, social media	12,247	261	521	13,029
Repairs and maintenance	9,806	1,182	827	11,815
Supplies	13,742	1,656	1,159	16,557
Telephone and internet	19,261	2,321	1,624	23,206
Training	23,961	11,725	-	35,686
Travel	38,495	4,277	-	42,772
Sales tax	1,764	213	149	2,125
Depreciation	13,054	1,573	1,101	15,728
TOTALS	<u>\$ 1,865,864</u>	<u>\$ 187,270</u>	<u>\$ 97,040</u>	<u>\$ 2,150,174</u>

See accompanying notes.

**DEMOCRACY NORTH CAROLINA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016**

	Program	General and Administrative	Fundraising	Total
Salaries	\$ 934,170	\$ 112,551	\$ 78,785	\$ 1,125,506
Other employee expenses	96,869	11,671	8,170	116,710
Payroll taxes	76,560	9,224	6,457	92,241
Advertising	129,666	-	-	129,666
Meetings and events	43,584	21,468	-	65,052
Contract labor	289,341	-	-	289,341
Lobbying	18,000	-	-	18,000
Dues and subscriptions	13,099	1,455	-	14,554
Contributions	725	-	-	725
Insurance	1,407	938	-	2,345
Licenses and permits	14,351	1,595	-	15,946
Professional fees	531	59	-	590
Penalties and Interest	2,056	228	-	2,284
Occupancy	22,785	2,745	1,922	27,452
Outreach grant and coalitions	206,650	-	-	206,650
Postage	285,647	6,078	12,155	303,880
Printing and publications	228,515	4,862	9,724	243,101
Supplies	27,606	3,326	2,328	33,260
Telephone and internet	17,563	2,116	1,481	21,160
Training	111	55	-	166
Travel	56,717	6,302	-	63,019
Utilities	4,687	565	395	5,647
Loss on disposition	65	-	-	65
Depreciation	12,018	1,448	1,014	14,480
TOTALS	<u>\$ 2,482,723</u>	<u>\$ 186,684</u>	<u>\$ 122,431</u>	<u>\$ 2,791,839</u>

See accompanying notes.

**DEMOCRACY NORTH CAROLINA
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 739,000	\$ 537,485
Adjustments to reconcile change in net assets provided by operating activities:		
Depreciation	15,728	14,480
Donation of stock	(52,772)	(31,288)
Gain/loss on sale of stock	(455)	65
Unrealized gain/loss on investments	(27,129)	-
Effects of changes in operating assets and liabilities:		
Prepaid expenses	(37,638)	(8,245)
Receivables	(413,368)	(528,582)
Accounts payable	(6,479)	6,080
Accrued expenses	(34,953)	49,124
Payroll liabilities payable	(2,608)	(9,333)
Security deposits	-	(175)
	179,326	29,611
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of stock	52,996	49,418
Purchase of long-term investments	(100,000)	-
Additions to certificates of deposit	(3,291)	(168,135)
Purchase of property and equipment	(6,798)	(12,266)
	(57,093)	(130,983)
 CASH FLOWS FROM FINANCING ACTIVITIES	-	-
 CHANGE IN CASH AND CASH EQUIVALENTS	122,233	(101,372)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	124,855	226,226
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 247,088	\$ 124,855

See accompanying notes.

**DEMOCRACY NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Democracy North Carolina (the Organization) is a 501(c)(3) not-for-profit corporation organized under the laws of the state of North Carolina. The Organization is organized for charitable and educational purposes to promote public discussion about the vitality of democracy in North Carolina; increase voter education; increase voter registration and civic participation within the state; examine the influence of private money on public policy and elections; and evaluate the relative importance of various governmental reforms, including public financing of elections.

Basis of Presentation

Accrual Basis of Accounting – The financial statements of Democracy North Carolina have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Under these provisions, Democracy North Carolina is required to report information regarding its financial position and operations according to two classes of net assets: without donor restrictions and with donor restrictions.

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations and that are available without limitation for support of Democracy North Carolina’s operations.

With donor restrictions – These net assets represent contributions which must be spent for the purpose designated by the donors or fall within a time restriction. Also falling into this category are donor-imposed stipulations that the principal contribution be invested permanently and the income be used either for a designated purpose or for general operations.

Allocation of Expenses

The costs of providing the program services and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, estimates have been made by management in allocating certain costs such as compensation, telephone, office expenses, etc., which have been distributed among the program and support services benefited.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2017 and 2016 was \$73,076 and \$129,666, respectively.

**DEMOCRACY NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certificates of Deposit

The Organization currently holds two certificates of deposit at a financial institution located in North Carolina and are reported at amortized cost. One of the certificates had a maturity date of December 28, 2017 and was not renewed. As of December 28, 2017, the value of this certificate was \$101,985 with a stated interest rate of 1.30%.

The other certificate has a maturity date of January 18, 2018 and was not renewed. As of December 31, 2017, the value of this certificate was \$152,847 with a stated interest rate of 1.30%.

Concentrations of Credit Risk

The Organization maintains cash in several commercial banks located in North Carolina. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. Balances in excess of FDIC limits are uninsured. At December 31, 2017, Democracy North Carolina had \$85,369 in excess of insured limits.

Concentrations of Revenue Sources

The Organization is funded primarily through grants. Any significant decrease in its level of grant revenue or if the grants were not renewed, it could pose a risk to the entity's financial position.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with United States generally accepted accounting principles 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.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents includes cash on hand, money market accounts, highly liquid investments with original maturities of three months or less, and amounts on deposit with banks. Due to the short nature of cash equivalents, the amount approximates fair value.

DEMOCRACY NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

Property and Equipment

Property and equipment is carried at cost and adjusted for impairments of value. The Organization capitalizes all expenditures in excess of \$500 for property and equipment at cost, and donated assets are recorded at fair market value at the date of the donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which has been estimated at three to thirty-nine years. Depreciation expense for the years ended December 31, 2017 and 2016 was \$15,728 and \$14,480, respectively.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, the cost and related accumulated depreciation accounts are relieved of the amount for each asset, and any related gain or loss is included in operations.

Income Taxes

The Organization is exempt from federal income taxes under Sections 501(c)(3) of the Internal Revenue Code. The State of North Carolina has granted a similar exemption. Therefore, no income taxes are reflected in these financial statements. The federal tax returns for the years 2016, 2015 and 2014 are still subject to examination by the Internal Revenue Service.

Contributions

Contributions of cash are considered to be available for unrestricted use, unless specifically restricted by the donor, and are recognized as revenues in the period the contribution is given. Conditional promises to give are not recognized by the Organization until they become unconditional. Contributions received with donor restrictions are reclassified to without donor restrictions and reported in the statements of activities as net assets released from restrictions when a donor's restriction expires.

DEMOCRACY NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – GRANTS RECEIVABLE

The organization’s grants are characterized as contribution revenue and are reported at fair value at the date of donation. Management evaluates the collectability of its grants receivable and records an allowance as necessary. As of December 31, 2017 there was not an allowance. At December 31, 2017 and 2016, the amount to be received in subsequent years is summarized as follows:

	2017	2016
Entity 1	\$475,000	\$515,000
Entity 2	200,000	-
Entity 3	100,000	-
Entity 4	50,000	-
	\$825,000	\$515,000

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give and are recognized as support when the donor makes the pledge. Pledges are recorded at net realized value. Management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Management expects to receive the full amounts pledged; therefore, an allowance for doubtfully collectible pledges was not calculated. Payments on pledges receivable at December 31, 2017 are expected to be received in the following years ending December 31:

2018	\$	53,500
2019		48,500
2020		2,500
		\$ 104,500

NOTE 4 – RENTAL INCOME

The Organization subleases space within its operating facility to other non-related organizations. For the years ended December 31, 2017 and 2016, the Organization received rent income of \$7,590 and \$9,665, respectively.

Most of the sublease agreements are for lease terms of six to twelve months. At December 31, 2017, the Organization had several subleases expiring between July 2018 and December 2018, with known future lease income of approximately \$5,100.

DEMOCRACY NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 – RETIREMENT PLAN

The Organization provides retirement benefits for its employees, through a simplified employee pension – individual retirement account (SEP-IRA). When the financial health of the Organization permits, amounts will be contributed to the employees' individual retirement account. For the years ended December 31, 2017 and 2016, contributions made by the Organization into these plans totaled \$27,903 and \$26,961, respectively.

NOTE 6 - FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The defined levels within the hierarchy based on the reliability of inputs as follows:

- **Level 1** - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- **Level 2** - Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- **Level 3** - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The equity securities are generally categorized in Level 2 of the fair value hierarchy.

NOTE 7 – INVESTMENT IN THE FOUNDATION FOR THE CAROLINAS

The Organization transferred \$100,000 from the operating account to two accounts with the Foundation for the Carolinas during the 2017 fiscal year. The amount set aside was approved by the Board of Directors in order to create a reserve fund. The money is invested in equity securities, and, therefore, the value fluctuates with the stock market. As of December 31, 2017, the value had increased by \$25,525 to \$285,519, resulting from the unrealized gain of \$27,129 on the value of the investment less the yearly account maintenance fees of \$1,604.

**DEMOCRACY NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 7 – INVESTMENT IN THE FOUNDATION FOR THE CAROLINAS (CONTINUED)

2017			
Quoted Prices in Active Markets for Identical Assets			
<u>Level (1)</u>	<u>Level (2)</u>	<u>Level (3)</u>	<u>Total</u>
\$ -	\$ 285,519	\$ -	\$ 285,519

2016			
Quoted Prices in Active Markets for Identical Assets			
<u>Level (1)</u>	<u>Level (2)</u>	<u>Level (3)</u>	<u>Total</u>
\$ -	\$ 159,994	\$ -	\$ 159,994

NOTE 8 – DONOR-RESTRICTED ASSETS

Donor-restricted assets include gifts of cash and other assets for which donor-imposed restrictions have not yet been met, and for which the ultimate purpose of the proceeds is not permanently restricted. As of December 31, 2017 and 2016, donor-restricted assets consisted of the following:

	2017	2016
Entity 1	\$ 475,000	\$ 475,000
Entity 2	100,000	-
Entity 3	100,000	-
Entity 4	50,000	-
Pledges receivable	104,500	
	\$ 829,500	\$ 475,000

DEMOCRACY NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 9 – HEALTH REIMBURSEMENT ACCOUNT

The Organization provides a health reimbursement account for employees that covers co-pays and deductibles. The insurance company that provides the Organization's health insurance mandates a minimum balance of \$25,000 in the bank account that issues the reimbursements. The account is monitored by management to ensure compliance. As of December 31, 2017, the Organization was in full compliance.

NOTE 10 – SUBSEQUENT EVENTS

Management evaluated subsequent events through May 9, 2018, the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.