

Democracy North Carolina
Durham, North Carolina

Audited Financial Statements

Years Ended December 31, 2018 and 2017

**THOMAS
& GIBBS**
CPAs, PLLC
Certified Public Accountants
and Consultants

DEMOCRACY NORTH CAROLINA
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December 31, 2018 and 2017

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Fayetteville Road Office Park
6114 Fayetteville Road, Suite 101
Durham, North Carolina 27713

919/ 544-0555 Phone
919/ 544-0556 Fax
866/ 956-5544 Toll Free

Certified Public Accountants
and Consultants

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Democracy North Carolina (the “Organization”), which comprise the statement of financial position as of December 31, 2018, and the related statement of activities, cash flows, and functional expenses 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Organization as of December 31, 2018, and the change in its net assets, cash flows, and functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The Organization's financial statements for the year ended December 31, 2017 were audited by other auditors and their report dated May 9, 2018 expressed an unmodified opinion.

James G. Smith CPA, REC

Durham, North Carolina

August 21, 2019

DEMOCRACY NORTH CAROLINA
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 915,474	\$ 247,088
Certificate of deposit (note 4)	-	254,832
Accounts receivable	108	-
Grants receivable (note 5)	1,281,541	825,000
Pledges receivable (note 6)	102,326	104,500
Rent receivable	-	225
Sales tax receivable	18,342	15,429
Prepaid expenses	8,357	54,028
Total current assets	2,326,148	1,501,102
Non-current assets:		
Property and equipment, net (note 7)	235,539	236,944
Long-term investments, net (note 8)	271,098	285,519
Total non-current assets	506,637	522,463
Total assets	\$ 2,832,785	\$ 2,023,565
Liabilities and net assets		
Current liabilities:		
Accounts payable (note 9)	108,116	1,833
Accrued vacation leave (note 10)	24,551	25,329
Payroll liabilities	(275)	225
Security deposits	1,119	354
Total current liabilities	133,511	27,741
Total liabilities	133,511	27,741
Net assets:		
Without donor restrictions:		
Undesignated	1,044,309	880,806
Board designated (note 11)	271,098	285,519
Total without donor restrictions	1,315,407	1,166,325
With donor restrictions (note 12)	1,383,867	829,500
Total net assets	2,699,274	1,995,825
Total liabilities and net assets	\$ 2,832,785	\$ 2,023,565

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

DEMOCRACY NORTH CAROLINA
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Support and revenue			
Contributions from grants	\$ 1,417,800	\$ 1,281,541	\$ 2,699,341
Contributions from individuals	733,679	102,326	836,005
Rent income	4,550	-	4,550
Loss on disposition	(627)	-	(627)
Unrealized loss on investments	(12,132)	-	(12,132)
Net assets released from restrictions (note 13)	829,500	(829,500)	-
Total support and revenue	<u>2,972,770</u>	<u>554,367</u>	<u>3,527,137</u>
Expenses			
Program services	2,278,285	-	2,278,285
Management and general	326,658	-	326,658
Fundraising	224,155	-	224,155
Total expenses	<u>2,829,097</u>	<u>-</u>	<u>2,829,097</u>
Change in net assets from operating activities	143,673	554,367	698,040
Non-operating Activities:			
Interest income	5,409	-	5,409
Change in net assets from non-operating activities	<u>5,409</u>	<u>-</u>	<u>5,409</u>
Change in net assets	149,082	554,367	703,449
Net assets, beginning of year	<u>1,166,325</u>	<u>829,500</u>	<u>1,995,825</u>
Net assets, end of year	<u>\$ 1,315,407</u>	<u>\$ 1,383,867</u>	<u>\$ 2,699,274</u>

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

DEMOCRACY NORTH CAROLINA
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Support and revenue			
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
Gain on disposition	455	-	455
Unrealized gain on investments	27,129	-	27,129
Net assets released from restrictions (note 13)	475,000	(475,000)	-
Total support and revenue	<u>2,528,254</u>	<u>354,500</u>	<u>2,882,754</u>
Expenses			
Program services	1,865,864	-	1,865,864
Management and general	187,270	-	187,270
Fundraising	97,040	-	97,040
Total expenses	<u>2,150,174</u>	<u>-</u>	<u>2,150,174</u>
Change in net assets from operating activities	378,080	354,500	732,580
Non-operating Activities:			
Interest income	6,420	-	6,420
Change in net assets from non-operating activities	<u>6,420</u>	<u>-</u>	<u>6,420</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>

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

DEMOCRACY NORTH CAROLINA
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 856,418	\$ 166,673	\$ 145,720	\$ 1,168,811
Employee benefits	89,736	27,733	12,323	129,792
Payroll taxes	66,549	12,884	11,248	90,682
Professional development	8,370	8,997	424	17,792
Consultants/Contractors	173,721	24,293	10,649	208,663
Program expenses	8,383	-	-	8,383
Meals and catering	27,974	2,960	97	31,031
Meetings and events	29,388	360	-	29,748
Outreach grant and coalitions	268,682	-	-	268,682
Communications	4,665	110	88	4,863
Facilities	35,961	4,198	2,956	43,115
Technology	29,647	7,371	2,729	39,747
Supplies	25,404	5,369	384	31,158
Printing, publications, social media	196,850	283	12,954	210,087
Postage and shipping	355,486	808	6,920	363,214
Travel expenses	83,944	1,136	2,828	87,909
Professional services	12,725	34,466	1,908	49,098
Insurance	3,801	13,878	785	18,463
Banking and processing fees	-	681	7,677	8,358
Dues and subscriptions	263	2,962	200	3,425
Depreciation expense	-	11,284	-	11,284
Miscellaneous expenses	318	210	4,266	4,793
Total Expenses	\$ 2,278,285	\$ 326,658	\$ 224,155	\$ 2,829,097

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

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

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
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
License 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 expense	13,054	1,573	1,101	15,728
Total Expenses	\$ 1,865,864	\$ 187,270	\$ 97,040	\$ 2,150,174

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

DEMOCRACY NORTH CAROLINA
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 703,450	\$ 739,000
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	11,284	15,728
Donation of stock	-	(52,772)
Gain on sale of stock	-	(455)
Loss on disposal	627	-
Interest	(5,409)	(6,420)
Unrealized loss (gain) on investments	12,132	(27,129)
Changes in operating assets and liabilities:		
(Increases) decreases in assets:		
Accounts receivable	(108)	-
Grants receivable	(456,541)	(310,000)
Pledges receivable	2,174	(104,500)
Rent receivable	225	(225)
Sales tax receivable	(2,913)	1,357
Prepaid expenses	45,671	(37,638)
Increases (decreases) in liabilities:		
Accounts payable	106,283	(6,479)
Accrued vacation leave	(778)	(34,953)
Payroll liabilities	(500)	(2,608)
Security deposits	765	-
Net cash provided (used) by operating activities	416,362	172,906
Cash flows from investing activities		
Cash paid for purchase of fixed assets	(10,614)	(6,798)
Redemption of certificates of deposit	257,121	(3,291)
Purchase of investments	-	(100,000)
Interest	5,409	6,420
Proceeds from sale of stock	-	52,996
Cash received for disposal of fixed assets	108	-
Net cash provided (used) by investing activities	252,024	(50,673)
Net increase in cash and cash equivalents	668,386	122,233
Cash and cash equivalents, beginning of year	247,088	124,855
Cash and cash equivalents, end of year	\$ 915,474	\$ 247,088

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

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2018 and 2017

Note 1 – Organization

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.

Note 2 – Summary of significant accounting policies

Basis of accounting - The Organization uses the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Basis of presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in Accounting Standards Codification (ASC) Topic 958-205, Not-for-profit Entities – Presentation of Financial Statements. Under ASC Topic 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets are defined as follows:

Net assets without donor restrictions – Net assets without donor restrictions include resources, which are available for use in carrying out the supporting activities of the Organization and are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets with donor restrictions include resources that have been donated to the Organization and that are subject to restrictions as defined by the donor. These restrictions are met either by the actions of the Organization and/or the passage of time. When a restriction expires as a result of the action of the Organization and/or passage of time, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. The Organization had net assets with donor restrictions of \$106,326 and \$829,500, as of December 31, 2018 and 2017, respectively.

Revenue recognition - The Organization follows ASC Topic 985-605, Revenue Recognition. In accordance with ASC 985-605, unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2018 and 2017

Note 2 – Summary of significant accounting policies (continued)

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restricted support.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restrictions upon acquisition of the assets and the assets are placed in service.

Liquidity - Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Advertising – The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2018 and 2017 was \$227 and \$73,076, respectively.

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.

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.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

Uncertain tax positions – Income from certain activities not directly related to the Organization’s tax-exempt purposes may be subject to taxation as unrelated business income. The Organization currently has no obligation for unrelated business income tax.

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 Organization’s financial position.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2018 and 2017

Note 2 – Summary of significant accounting policies (continued)

Expense allocation – Expenses are summarized on a functional basis in the statement of activities and statement of functional expense. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to functional and supporting services on the basis of their relative use by each function. A formula for percent of usage is based on the number of staff members in each functional area. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

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.

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.

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, 2018 and 2017, the Organization had \$392,932 and \$85,369 in excess of insured limits, respectively.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2018 and 2017

Note 2 – Summary of significant accounting policies (continued)

Grants and pledges receivable – Grants receivable are recorded at net realizable value. The Organization provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in collection. The allowance is based on historical collection experience and a review by management of the current status of existing receivables. As of December 31, 2018 and 2017, all receivables were deemed collectible by management.

Measure of operations – The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization’s ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs and other activities considered to be of a more unusual or non-recurring nature.

New accounting pronouncement – On August 18, 2016, FASB issued ASU 2016-14, *Not for Profit Entities (Topic 958) – Presentation of Financial statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Pending accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires that lessees recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for the Organization for the year ending December 31, 2019. The adoption of this standard is not expected to result in the Organization’s recognizing right-of-use assets and lease liabilities for any current leases.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018.

The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

ASU 2016-18, (Topic 230): *Statement of Cash Flows – Restricted Cash*, is effective for fiscal years beginning after December 15, 2018. The ASU is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents requiring they be included as components of total cash and cash equivalents as presented on the statement of cash flows.

ASU 2018-08, (Topic 958): *Not-for-Profit Entities – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* is effective for years beginning after December 15, 2019. This ASU is intended to clarify the guidance for classifying resources provided by contributors as contributions or exchange (reciprocal) transactions.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
 Years Ended December 31, 2018 and 2017

Note 3 – 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.

The Organization had the following cash and cash equivalents balances available for operations as of December 31:

	2018	2017
Non-interest bearing checking account	\$ 122,579	\$ 116,377
Interest bearing checking account	792,895	130,711
Total	\$ 915,474	\$ 247,088

Note 4 – Certificate of deposit

During the year ended December 31, 2018 and 2017, the Organization held a certificate of deposit at a financial institution located in North Carolina and reported at amortized cost. The certificate had a maturity date of January 18, 2018 and was not renewed. On the date of its maturity, the certificate was \$152,978 with a stated interest rate of 1.30%.

Note 5 – 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, 2018 and 2017, all grants receivable were deemed collectible by management.

At December 31, 2018 and 2017, the amount to be received in subsequent years is summarized as follows:

	2018	2017
Entity 1	\$ 1,140,000	\$ 475,000
Entity 2	-	200,000
Entity 3	-	100,000
Entity 4	175,000	50,000
Entity 5	4,000	-
Less: discount to present value	(37,459)	-
	\$ 1,281,541	\$ 825,000

Grants receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The applicable rate at December 31, 2018 was 2.48%. Amortization of the discount will be reported in the statement of activities as interest income.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
 Years Ended December 31, 2018 and 2017

Note 5 – Grants receivable (continued)

Grants receivable are due as follows:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 644,000	\$ 825,000
One to five years	637,541	-
More than five years	-	-
	<u>\$ 1,281,541</u>	<u>\$ 825,000</u>

Note 6 – 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. As of December 31, 2018 and 2017, all pledges receivable were deemed collectible by management.

Payments on pledges receivable at December 31, 2018 and 2017 are expected to be received in the following years:

	<u>2018</u>	<u>2017</u>
2018	\$ -	\$ 53,500
2019	47,157	48,500
2020	55,500	2,500
2021	2,500	-
Less: discount to present value	(2,831)	-
Total	<u>\$ 102,326</u>	<u>\$ 104,500</u>

Pledges receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The applicable rate at December 31, 2018 was 2.48%. Amortization of the discount will be reported in the statement of activities as interest income.

Note 7 – Property and equipment, net

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 82,396	\$ 82,396
Building and improvements	213,117	213,117
Equipment	53,898	52,261
Vehicles	10,971	25,858
	<u>360,382</u>	<u>373,632</u>
Less accumulated depreciation	(124,843)	(136,688)
Property and equipment, net	<u>\$ 235,539</u>	<u>\$ 236,944</u>

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2018 and 2017

Note 7 – Property and equipment, net (continued)

The Organization recognized depreciation expense of \$11,284 and \$15,728 for the years ended December 31, 2018 and 2017, respectively.

Note 8 – Investment in the Foundation for the Carolinas

The Organization’s investments consist of a beneficial interest in assets held by the Foundation for the Carolinas. These funds were set aside 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, 2018, the value decreased by \$14,421 to \$271,098, resulting from the unrealized loss of \$12,132 on the value of the investment in addition to the yearly account maintenance fees totaling \$2,289.

2018			
Quoted Prices in Active Markets for identical assets			
Level (1)	Level (2)	Level (3)	Total
\$ -	\$ -	\$ 271,098	\$ 271,098
2017			
Quoted Prices in Active Markets for identical assets			
Level (1)	Level (2)	Level (3)	Total
\$ -	\$ -	\$ 285,519	\$ 285,519

Note 9 – Accounts payable

Accounts payable consist of the following at December 31:

	2018	2017
Accounts payable	\$ 106,776	\$ -
Credit card payable	1,340	1,833
	\$ 108,116	\$ 1,833

Note 10 – Accrued vacation payable

The Organization has a paid-time-off (PTO) policy in which employees are allowed to carry over 10 days of accrued leave into the subsequent year. Accrued PTO was \$24,551 and \$25,329 as of December 31, 2018 and 2017, respectively.

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Note 11- Board designated net assets

As of December 31, 2018 and 2017, the Board of Directors designated \$271,098 and \$285,519, respectively of net assets without donor restrictions to support the mission of the Organization. Since that amount is from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

Note 12 - Net assets with donor restrictions

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, 2018 and 2017, donor-restricted assets consisted of the following:

	2018	2017
<u>Subject to passage of time</u>		
Entity 1	\$ 1,102,541	\$ 475,000
Entity 2	-	100,000
Entity 3	-	100,000
Entity 4	175,000	50,000
Entity 5	4,000	-
Pledges receivable	102,326	104,500
	\$ 1,383,867	\$ 829,500

Note 13 – Net assets released from restrictions

The following are releases from donor restricted net assets for the years ended December 31, 2018 and 2017:

	2018	2017
<u>Subject to passage of time</u>		
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

Note 14 – Rental income

The Organization subleases space within its operating facility to an unrelated organization. The Organization's agreements cover the entire year of fiscal year 2018 and through July 2019, with payments of \$425 monthly. For the years ended December 31, 2018 and 2017, the Organization received rent income of \$4,550 and \$7,590, respectively.

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Note 15 – 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, 2018 and 2017, contributions made by the Organization into these plans totaled \$46,284 and \$27,903, respectively.

Note 16 – Liquidity

The Organization’s financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 915,474	\$ 247,088
Certificate of deposit	-	254,832
Accounts receivable	108	-
Grants receivable	644,000	825,000
Pledges receivable	47,157	53,500
Rent receivable	-	225
Sales tax receivable	18,342	15,429
Prepaid expenses	8,357	54,028
	<u>\$ 1,633,438</u>	<u>\$ 1,450,102</u>

The Organization’s financial assets have been reduced by amounts not available for general use because of donor imposed or other restrictions within one year of the statement of financial position date. As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due.

Notes 17 – Leases

During 2018, the Organization leased office space under an operating lease agreement. The office lease agreement requires monthly lease payments of \$608 through June 2019. Rent expense under this lease totaled \$1,216 for the year ended December 31, 2018.

Note 18 – 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, 2018, the Organization was in full compliance.

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Note 19 – Contingencies

The Organization receives grant funds. Such funds are subject to final approval by the grantor agencies and deficiencies, if any, are the responsibility of the Organization.

The Organization has the usual obligations of a contractor for performance in connection with contracts for work performed and to be performed. Management does not anticipate any significant losses in connection with these grants.

Note 20 – Description of program services

The Organization’s work involves a variety of distinct but integrated activities, including:

Organizing - statewide and in local communities from the halls of the legislature to city halls and local boards of elections – to bring together diverse groups of people to focus on shared advocacy and civic engagement goals.

Research - that leverages subject-matter expertise to analyze barriers to political participation and to propose solutions. Findings are distributed to targeted audiences, media, and other intermediaries.

Advocacy - through local and statewide networks of informed citizens who are willing to pursue and defend meaningful pro-democracy policies and take a more active role in government. Frequent training for citizens, including Democracy Summer, a paid internship for outstanding college students.

Democracy NC has a full-time staff of 16 with a main office in Durham and regional organizing offices in Asheville, Charlotte, Fayetteville, Greenville, and Winston-Salem. The Organization has an annual budget of over \$2 million, receives a healthy mix of foundation and individual donor support, and has a substantial board-governed reserve fund.

Note 21 – Subsequent events

The Organization has evaluated subsequent events occurring after December 31, 2018 through August 21, 2019, which is the date the financial statements were available to be issued.