

Democracy North Carolina
Durham, North Carolina

Audited Financial Statements

Years Ended December 31, 2022 and 2021

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

DEMOCRACY NORTH CAROLINA
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December 31, 2022 and 2021

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Certified Public Accountants
and Consultants

Report of Independent Auditors

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

Opinion

We have audited the accompanying financial statements of Democracy North Carolina (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Democracy North Carolina and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance

with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Democracy North Carolina's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Democracy North Carolina's ability to continue as a going concern for a reasonable period of time.

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

Thomas S. Gilbo CMA, PLLC

Durham, North Carolina

May 16, 2022

DEMOCRACY NORTH CAROLINA
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 4,210,522	\$ 3,859,499
Restricted cash and cash equivalents (note 14)	26,854	26,251
Accounts receivable	48	-
Grants receivable (note 4)	944,865	1,085,014
Promises to give (note 5)	77,082	132,981
Sales tax receivable	23,028	4,212
Other assets	39,647	44,735
Total current assets	5,322,046	5,152,692
Non-current assets:		
Property and equipment, net (note 6)	63,148	14,927
Right-of-use assets - operating leases (note 15)	71,456	-
Beneficial interest in assets held in the Foundation of the Carolinas (note 7)	321,440	377,732
Total non-current assets	456,044	392,659
Total assets	\$ 5,778,090	\$ 5,545,351
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 20,142	\$ 34,266
Credit cards payable	29,661	11,984
Deferred rent	-	4,316
Accrued vacation payable (note 9)	58,645	59,642
Accrued payroll and benefits payable	66,540	70,029
Lease liability - current (note 15)	62,826	-
Security deposits	129	129
Total current liabilities	237,943	180,366
Total liabilities	237,943	180,366
Net assets:		
Without donor restrictions:		
Undesignated	3,040,440	2,850,893
Board designated (note 10)	1,000,000	835,897
Total without donor restrictions	4,040,440	3,686,790
With donor restrictions (note 11)	1,499,707	1,678,195
Total net assets	5,540,147	5,364,985
Total liabilities and net assets	\$ 5,778,090	\$ 5,545,351

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

DEMOCRACY NORTH CAROLINA
STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Support and revenue			
Contributions from grants	\$ 3,127,351	\$ 801,000	\$ 3,928,351
Contributions from individuals	625,391	2,000	627,391
Net assets released from restrictions (note 12)	981,488	(981,488)	-
Total support and revenue	4,734,230	(178,488)	4,555,742
Expenses			
Program services			
Communications	1,492,479	-	1,492,479
Organizing	1,499,510	-	1,499,510
Advocacy	442,824	-	442,824
Total program services	3,434,813	-	3,434,813
Supporting services			
Management and general	625,075	-	625,075
Fundraising	264,340	-	264,340
Total supporting services	889,415	-	889,415
Total functional expenses	4,324,228	-	4,324,228
Change in net assets from operating activities	410,002	(178,488)	231,514
Non-operating Activities:			
Loss on disposal of property and equipment	(211)	-	(211)
Loss on uncollectible pledges receivable	(5,000)	-	(5,000)
Change in beneficial interest in assets held in the Foundation of the Carolinas	(56,292)	-	(56,292)
Net investment income	5,151	-	5,151
Change in net assets from non-operating activities	(56,352)	-	(56,352)
Change in net assets	353,650	(178,488)	175,162
Net assets, beginning of year	3,686,790	1,678,195	5,364,985
Net assets, end of year	\$ 4,040,440	\$ 1,499,707	\$ 5,540,147

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

DEMOCRACY NORTH CAROLINA
STATEMENT OF ACTIVITIES
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Support and revenue			
Contributions from grants	\$ 1,027,189	\$ 1,647,514	\$ 2,674,703
Contributions from individuals	627,122	15,981	643,103
Research and honoraria income	150	-	150
Net assets released from restrictions (note 12)	1,210,853	(1,210,853)	-
Total support and revenue	2,865,314	452,642	3,317,956
Expenses			
Program services			
Communications	437,520	-	437,520
Organizing	1,230,026	-	1,230,026
Advocacy	574,914	-	574,914
Total program services	2,242,460	-	2,242,460
Supporting services			
Management and general	552,862	-	552,862
Fundraising	283,817	-	283,817
Total supporting services	836,679	-	836,679
Total functional expenses	3,079,139	-	3,079,139
Change in net assets from operating activities	(213,825)	452,642	238,817
Non-operating Activities:			
Change in beneficial interest in assets held in the Foundation of the Carolinas	31,845	-	31,845
Net investment income	5,913	-	5,913
Insurance recoveries	4,861	-	4,861
Gain on disposal of property and equipment	576,476	-	576,476
Change in net assets from non-operating activities	619,095	-	619,095
Change in net assets	405,270	452,642	857,912
Net assets, beginning of year	3,281,520	1,225,553	4,507,073
Net assets, end of year	\$ 3,686,790	\$ 1,678,195	\$ 5,364,985

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

DEMOCRACY NORTH CAROLINA
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022

	Program Services			Supporting Services		Total
	Communications	Organizing	Advocacy	Management and General	Fundraising	
Salaries	\$ 305,094	\$ 683,404	\$ 209,640	\$ 336,428	\$ 108,740	\$ 1,643,306
Employee benefits	28,625	56,056	25,944	71,939	13,369	195,933
Payroll taxes	24,392	53,709	17,234	27,328	8,928	131,591
Professional development	2,857	7,665	5,171	15,402	3,637	34,732
Consultants/Contractors	124,886	91,455	74,382	47,392	35,030	373,145
Meals and catering	540	10,264	764	-	-	11,568
Meetings and events	2,497	3,198	14	-	-	5,709
Outreach grant and coalitions	-	403,300	19,000	-	-	422,300
Communications	187,994	-	70	1,512	-	189,576
Facilities	27,938	72,640	23,386	21,632	19,168	164,764
Technology	23,329	24,499	12,628	10,260	21,538	92,254
Supplies	1,773	6,648	1,913	5,449	1,668	17,451
Printing, publications, social media	320,056	35,232	42,615	190	20,932	419,025
Postage and shipping	436,687	17,412	531	1,410	15,463	471,503
Travel expenses	2,833	25,195	1,471	7,877	3,020	40,396
Professional services	736	2,618	6,071	58,765	4,289	72,479
Insurance	583	844	488	1,620	646	4,181
Banking and processing fees	911	2,746	758	6,006	7,600	18,021
Dues and subscriptions	214	109	500	1,010	130	1,963
Depreciation expense	-	-	-	9,758	-	9,758
Miscellaneous expenses	534	2,516	244	1,097	182	4,573
Total functional expenses	<u>\$ 1,492,479</u>	<u>\$ 1,499,510</u>	<u>\$ 442,824</u>	<u>\$ 625,075</u>	<u>\$ 264,340</u>	<u>\$ 4,324,228</u>

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

DEMOCRACY NORTH CAROLINA
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021

	Program Services			Supporting Services		Total
	Communications	Organizing	Advocacy	Management and General	Fundraising	
Salaries	\$ 243,735	\$ 612,066	\$ 358,305	\$ 295,573	\$ 123,283	\$ 1,632,962
Employee benefits	39,501	110,716	61,993	66,222	22,096	300,528
Payroll taxes	20,303	50,188	29,535	22,386	11,256	133,668
Professional development	5,778	6,082	8,166	12,247	3,139	35,412
Consultants/Contractors	12,887	18,117	22,773	44,104	44,807	142,688
Meals and catering	36	4,453	199	123	421	5,232
Meetings and events	-	753	565	-	-	1,318
Outreach grant and coalitions	-	291,250	50,000	-	-	341,250
Communications	1,751	1,320	-	-	695	3,766
Facilities	22,589	78,110	20,345	27,899	16,454	165,397
Technology	25,384	23,689	10,850	6,524	18,572	85,019
Supplies	450	2,076	253	2,311	12	5,102
Printing, publications, social media	39,037	14,851	316	76	15,710	69,990
Postage and shipping	19,103	4,970	115	516	12,669	37,373
Travel expenses	768	5,781	4,427	1,364	375	12,715
Professional services	3,512	1,915	4,828	52,783	5,903	68,941
Insurance	680	1,282	575	2,010	499	5,046
Banking and processing fees	743	1,799	749	5,319	7,805	16,415
Dues and subscriptions	688	-	312	1,430	95	2,525
Depreciation expense	-	-	-	8,930	-	8,930
Miscellaneous expenses	575	608	608	3,045	26	4,862
Total functional expenses	\$ 437,520	\$ 1,230,026	\$ 574,914	\$ 552,862	\$ 283,817	\$ 3,079,139

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

DEMOCRACY NORTH CAROLINA
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 175,162	\$ 857,912
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	9,758	8,930
Loss on uncollectible promises to give	5,000	-
Donated securities	(35,034)	(77,285)
Proceeds from sale of donated securities	32,924	43,717
Loss on disposal of property and equipment	211	(576,476)
Reduction in the carrying amount of the right-of-use assets - operating leases	122,189	-
Change in beneficial interest in assets held by the Foundation for the Carolinas	56,292	(31,845)
Realized and unrealized (gain) loss on investments	2,110	33,568
Changes in operating assets and liabilities:		
Accounts receivable	(48)	-
Grants receivable	140,149	(135,014)
Promises to give	50,899	93,264
Sales tax receivable	(18,816)	21,712
Prepaid expenses	(5,627)	(12,014)
Accounts payable	(14,124)	12,583
Accrued expenses	16,680	(4,948)
Deferred rent	-	514
Payroll liabilities	(3,489)	(1,230)
Lease liabilities	(124,420)	-
Security deposits	-	(1,980)
Net cash provided (used) by operating activities	409,816	231,408
Cash flows from investing activities		
Purchase of property and equipment	(58,190)	(12,369)
Proceeds from the disposal of property and equipment	-	786,141
Net cash provided (used) by investing activities	(58,190)	773,772
Net increase in cash and cash equivalents and restricted cash	351,626	1,005,180
Cash and cash equivalents and restricted cash, beginning of year	3,885,750	2,880,570
Cash and cash equivalents and restricted cash, end of year	\$ 4,237,376	\$ 3,885,750
Composition of cash and cash equivalents		
Cash and cash equivalents	\$ 4,210,522	\$ 3,859,499
Restricted cash and cash equivalents	26,854	26,251
	\$ 4,237,376	\$ 3,885,750

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

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

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.

The Organization’s programs 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.

Communications – developing and delivering external resources, including traditional media, public relations, and digital communications, to build public awareness of and favorability toward the Organization’s external goals and increase the Organization’s exposure to targeted audiences, including the public, 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.

Note 2 – Summary of significant accounting policies

Basis of accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Basis of presentation – The Organization’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Accordingly, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. As a result, the net assets of the Organization and changes therein are classified and reported as either with or without donor restrictions.

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.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 2 – Summary of significant accounting policies (continued)

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 \$1,499,707 and \$1,678,195, as of December 31, 2022 and 2021, 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. Gifts of cash and other assets are reported with donor restricted support if they are designated for future periods or restricted by the donor for a specific purpose.

Conditional promises to give, which is defined as those promises to give that contain a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. If a condition related to a donor restricted contribution is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. As of December 31, 2022 and 2021, the Organization has \$0 and \$50,000, respectively, of grants and promises to give that have not been recognized in the accompanying statements of activities because the conditions on which they depend have not yet been met.

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. In the event that monies both with and without donor restrictions are available for use for activities that comply with donor restrictions, the Organization will use funds having donor restrictions first.

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.

Contributed Services – A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization’s programs. The value of this contributed time is not reflected in the financial statements as it is not susceptible to objective measurement or valuation.

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.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 2 – Summary of significant accounting policies (continued)

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, 2022 and 2021 was \$189,577 and \$3,766, respectively.

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.

Property and equipment – Property and equipment is carried at cost and adjusted for impairments of value. The Organization capitalizes all expenditures greater than \$1,000 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.

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.

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. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined that the Organization had no uncertain income tax positions at December 31, 2022 and 2021. The Organization is not classified as a private foundation.

Concentrations of revenue sources - The Organization is funded primarily through grants. Any significant decrease in its level of grant revenue could pose a risk to the Organization’s financial position.

Expense allocation – Expenses are summarized on a functional basis in the statements of activities and statements of functional expenses. 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 based on 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.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 2 – Summary of significant accounting policies (continued)

Investments - Investments in marketable securities with readily determinable fair values and all investments 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.

Concentrations of credit risk - The Organization maintains cash in several commercial banks located in North Carolina. Balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. Balances exceeding FDIC limits are uninsured. As of December 31, 2022 and 2021, the Organization had deposits of \$542,798 and \$2,055,151, respectively, exceeding insured limits. As of December 31, 2022 and 2021, the Organization held \$3,280,165 and \$1,344,969, respectively of fully insured funds in the Insured Cash Sweep network.

Grants and promises to give – Grants and promises to give that are expected to be collected within one year are recorded at net realizable value. Grants and promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. 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, 2022 and 2021, management estimated an allowance for uncollectible promises to give of \$5,000.

Leases – The Organization determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

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, beneficial interest, financing costs and other activities considered to be of a more unusual or non-recurring nature.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 2 – Summary of significant accounting policies (continued)

New accounting pronouncements – In 2022, the Organization adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the statements of financial position and disclose key information about leasing arrangements. The Organization elected not to restate the comparative period (2021). It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, The Organization recognized right-of-use assets related to operating leases of \$193,645 and lease liabilities totaling \$187,246 in its statement of financial position as of January 1, 2022. Additionally, as of January 1, 2022, deferred rent of \$4,316 and prepaid rents of \$10,715 were reclassified as part of the implementation. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended December 31, 2022.

In 2022, the Organization adopted ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires enhanced presentation and disclosures related to contributed nonfinancial assets. The standard had no significant impact on the financial statements or disclosures of the Organization.

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:

	<u>2022</u>	<u>2021</u>
Non-interest bearing checking accounts	\$ 435,890	\$ 117,022
Interest bearing checking accounts	<u>3,801,486</u>	<u>3,768,728</u>
Total	<u>\$ 4,237,376</u>	<u>\$ 3,885,750</u>

Note 4 – 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.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 4 – Grants receivable (continued)

At December 31, 2022 and 2021, the amount to be received in subsequent years is summarized as follows:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 450,000	\$ 300,000
One to three years	<u>500,000</u>	<u>800,000</u>
	950,000	1,100,000
Less: Present value discount	<u>(5,135)</u>	<u>(14,986)</u>
Net grants receivable	<u>\$ 944,865</u>	<u>\$ 1,085,014</u>

Grants receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The discount applied to grants receivable outstanding range from 0.95% to 1.39%. Amortization of the discount is reported in the statement of activities as an offset to contribution revenue. Grants receivable consist of the following:

	<u>2022</u>	<u>2021</u>
Entity 1	\$ 700,000	\$ 1,050,000
Entity 2	50,000	-
Entity 3	200,000	-
Entity 4	-	50,000
Less: Discount	<u>(5,135)</u>	<u>(14,986)</u>
	<u>\$ 944,865</u>	<u>\$ 1,085,014</u>

Note 5 – Promises to give

Promises to give represent unconditional promises to give and are recognized as support when the donor makes the pledge. Pledges are recorded at net realizable value. Management evaluates payment history and market conditions to estimate allowances for doubtful promises to give. As of December 31, 2022 and 2021, management estimated an allowance for uncollectible promises to give of \$5,000.

Payments on promises to give at December 31, 2022 and 2021 are expected to be received in the following years:

	<u>2022</u>	<u>2021</u>
Promises to give in less than one year	\$ 29,750	\$ 55,500
Promises to give in one to three years	52,500	83,000
Less: discount to present value	(168)	(519)
Less: allowance for uncollectible promises to give	<u>(5,000)</u>	<u>(5,000)</u>
Total	<u>\$ 77,082</u>	<u>\$ 132,981</u>

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
 Years Ended December 31, 2022 and 2021

Note 5 – Promises to give (continued)

Promises to give with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments as of the date of the initial pledge. The discount rates applied to promises to give outstanding as of December 31, 2022 and December 31, 2021 ranged from 0.07% to 0.54%. Amortization of the discount is reported in the statements of activities as an offset to contribution revenue.

Note 6 – Property and equipment, net

Property and equipment consist of the following at December 31:

	2022	2021
Equipment	\$ 94,997	\$ 49,074
Vehicles	10,971	10,971
	105,968	60,045
Less accumulated depreciation	(42,820)	(45,118)
Property and equipment, net	\$ 63,148	\$ 14,927

The Organization recognized depreciation expense of \$9,758 and \$8,930 for the years ended December 31, 2022 and 2021, respectively.

Note 7 – Beneficial interest in assets held in the Foundation for the Carolinas

During 2015, the Organization established two quasi-endowed funds with unrestricted funds with the Foundation for the Carolinas (“Foundation”) and named itself as the beneficiary. These funds were set aside by the Board of Directors to create a cash reserve fund. The Organization granted variance power to the Foundation, which allows the Foundation to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified beneficiary, if, in the sole judgment of the Foundation’s Board of Directors, such restriction becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by the Foundation. The money is invested in a quasi-endowed agency fund and, therefore, the value fluctuates with changes in the value of the respective funds. The balance is presented as board designated net assets without donor restrictions in the statements of financial position.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
 Years Ended December 31, 2022 and 2021

Note 7 – Beneficial interest in assets held in the Foundation for the Carolinas (continued)

The following table provides a summary of changes in fair value for the years ended December 31:

	2022	2021
Beneficial interest, beginning	\$ 377,732	\$ 345,887
Change in value of trust	(56,292)	31,845
Beneficial interest, end of year	\$ 321,440	\$ 377,732

Note 8 – Fair value measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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 Organization’s financial instruments carried at fair value on a recurring basis by the fair value hierarchy levels are shown below.

December 31, 2022			
Quoted Prices in Active Markets for identical assets Level (1)	Level (2)	Level (3)	Total
\$ -	\$ -	\$ 321,440	\$ 321,440
December 31, 2021			
Quoted Prices in Active Markets for identical assets Level (1)	Level (2)	Level (3)	Total
\$ -	\$ -	\$ 377,732	\$ 377,732

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
 Years Ended December 31, 2022 and 2021

Note 8 – Fair value measurements (continued)

The Organization uses appropriate valuation techniques based on the available inputs. When available, the Organization measures fair value using Level 1 inputs as they generally provide the most reliable evidence of fair value. Level 2 and Level 3 inputs are only used when Level 1 inputs were not available. The market approach was used for all assets classified as Level 1 and Level 2. The fair value of the beneficial interest in assets held by the Foundation for the Carolinas, classified as Level 3, is measured based on the fair values of the underlying assets, which consist primarily of fixed income, equity securities, alternative investments, and cash for which the Organization relies on fair value measurement calculations performed and provided by the Foundation for the Carolinas. Inputs include the credit risk of the issuer, maturity, current yield, and other terms and conditions of each instrument.

There were no changes to valuation techniques during the years ended December 31, 2022 and 2021.

Note 9 – Accrued vacation payable

For the years ended December 31, 2022 and 2021, the Organization had a paid-time-off (PTO) policy in which employees are permitted to carry over 15 days of accrued leave into the subsequent year. Accrued PTO was \$58,645 and \$59,642 as of December 31, 2022 and 2021, respectively.

Note 10- Board designated net assets

As of December 31, 2022 and 2021, the Board of Directors designated \$1,000,000 and \$835,897, 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 subject donor restrictions, it is classified and reported as net assets without donor restrictions.

Note 11 - Net assets with donor restrictions

Donor-restricted assets include gifts of cash and other assets for which donor-imposed purpose or time restrictions have not yet been met, and for which the ultimate purpose of the proceeds is not permanently restricted. As of December 31, 2022 and 2021, donor-restricted assets consisted of the following:

	2022	2021
<u>Subject to purpose restrictions</u>		
Leadership Center	\$ 785	\$ -
Election Protection	75,000	-
Carolina Youth Partnership	300,000	250,000
Capacity Building	1,975	10,200
<u>Subject to passage of time</u>		
2022 program activities	-	555,500
2023 program activities	579,750	430,500
2024 program activities	542,197	431,995
	\$ 1,499,707	\$ 1,678,195

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 12 – Net assets released from restrictions

The following are releases from donor restricted net assets for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<u>Subject to purpose restrictions</u>		
MVP Program	\$ -	\$ 300,000
Leadership Center	215	-
Election Protection	75,000	49,308
Carolina Youth Partnership	250,000	-
Capacity Building	8,225	2,300
<u>Subject to passage of time</u>		
Entity 1	388,778	225,000
Entity 2	101,371	-
Entity 3	-	100,000
Entity 4	50,000	50,000
Entity 5	50,000	50,000
Entity 6	-	75,000
Entity 7	-	25,000
Entity 8	-	200,000
Entity 9	-	25,000
Promises to give	57,899	109,245
	<u>\$ 981,488</u>	<u>\$ 1,210,853</u>

Note 13 – Retirement plan

Effective on July 1, 2022, the Organization began offering its employees an updated pretax IRC Section 403(b) Plan (“403(b) Plan”). Full time employees are eligible to participate upon their start date and part-time employees are eligible to participate if they have been employed for one year and have worked at least 1,000 hours for the Organization. The Organization matches all employee 403(b) contributions up to a maximum of 5% of the employee’s contributions. Additionally, the Organization offers a nonelective employer contribution in an amount equal to 2% of the employee’s compensation for all eligible employees after a 90-day probationary period. Staff members who were employed by the Organization as of January 1, 2022 are grandfathered into this program and received their first nonelective contribution in August 2022. Participants in the 403(b) Plan are immediately vested in all employee and employer contributions.

Prior to the establishment of the updated 403(b) Plan, the Organization provided retirement benefits for its employees through a simplified employee pension – individual retirement account (SEP-IRA) and a 403(b)(7) plan. When the financial health of the Organization permitted, amounts would be contributed to the employees’ individual retirement account and employees were able to contribute to their 403(b) accounts.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 13 – Retirement plan (continued)

For the years ended December 31, 2022 and 2021, retirement plan contributions made by the Organization totaled \$38,276 and \$72,174, respectively.

Note 14 – Restricted cash - 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, 2022 and 2021, the Organization held restricted cash for the health reimbursement account of \$26,854 and \$26,251, respectively, and was in full compliance.

Note 15 – Leases

The Organization evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent the Organization's right to use underlying assets for the lease term, and the lease liabilities represent the Organization's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from its operating lease, was calculated based on the present value of future lease payments over the lease term. The Organization has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of December 31, 2022, was 1.34%.

On February 6, 2020, the Organization entered into an operating lease for its primary office space. The lease agreement is payable in monthly installments that began at \$10,298 for the first year and escalated according to a fixed schedule annually until the lease ends, on June 30, 2023. The forty-two month lease term excludes a two-year extension, available at the Organization's option, which it is not reasonably certain to exercise as the overall terms of the lease agreement are being renegotiated. Therefore, the payments associated with the extension are not included in the ROU asset nor the lease liability recognized as of December 31, 2022.

Additionally, the Organization leases space for its regional offices under short-term leases for which the Organization does not report ROU assets and leases liabilities. The lease agreements require monthly lease payments between \$325-\$900.

For the year ended December 31, 2022, total operating lease cost was \$126,568, and total short-term lease cost was \$31,151. For the year ended December 31, 2021, rent expense totaled \$161,062. As of December 31, 2022, the weighted-average remaining lease term for the Organization's operating lease was approximately six months.

Cash paid for operating leases for the year ended December 31, 2022 was \$128,798. There were no noncash investing and financing transactions related to leasing other than the transition entry described in Note 2.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 15 – Leases (continued)

Future maturities of lease liabilities are presented in the following table, for the fiscal year ended June 30, 2022:

	Amount
2023	\$ 65,585
Less present value discount	(2,759)
Total lease obligations	\$ 62,826

Future minimum rental commitments under leases as of December 31, 2021 were as follows:

	Minimum Lease Payments
2022	\$ 132,875
2023	65,585
	\$ 198,460

Note 16 – Liquidity

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

	2022	2021
Cash and cash equivalents	\$ 4,237,376	\$ 3,885,750
Accounts receivable	48	-
Grants receivable	944,865	1,085,014
Promises to give	77,082	132,981
Sales tax receivable	23,028	4,212
Prepaid expenses	39,647	44,735
Less:		
Restricted cash	(26,854)	(26,251)
With Donor restrictions	(1,499,707)	(1,678,195)
Restrictions expected to be met before 12/31	957,510	815,700
	\$ 4,752,995	\$ 4,263,946

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.

DEMOCRACY NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

Note 16 – Liquidity (continued)

The Board of Directors of the Organization adopted a formal operating reserve policy in 2017, the purpose of which is to build and maintain an adequate level of net assets without donor restrictions to support the Organization’s day-to-day operations in the event of unforeseen shortfalls. The objective is to fund the operating reserve from surplus unrestricted operating funds to be equal to five months of cash operating expenses. The Organization does not intend to spend from operating reserves, though if additional liquidity is needed, these amounts could be made available, if necessary.

Note 17 – Related parties

The Organization received contributions and/or cash receipts fulfilling outstanding promises to give from members of the Board of Directors totaling \$77,015 and \$48,245 for the years ending December 31, 2022 and 2021, respectively.

Note 18 – Subsequent events

We have evaluated subsequent events through May 16, 2022, the date the financial statements were available to be issued.