

Democracy Fund, Inc.
Financial Statements
December 31, 2019 and 2018



Report of Independent Auditors

To the Board of Directors of Democracy Fund, Inc.

We have audited the accompanying financial statements of Democracy Fund, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility 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; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Company'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 Company'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 Fund, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 14, 2020

Democracy Fund, Inc.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 69,709,635	\$ 76,859,528
Marketable securities	15,888,400	-
Prepaid expenses and other assets	437,729	438,118
Fixed assets, net	1,312,651	1,488,520
Total assets	<u>\$ 87,348,415</u>	<u>\$ 78,786,166</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 3,097,596	\$ 2,510,853
Grants payable	4,700,190	3,690,106
Federal excise tax payable	658,638	751,783
Total liabilities	<u>8,456,424</u>	<u>6,952,742</u>
Net assets without donor restrictions	16,473,557	2,239,286
Net assets with donor restrictions	62,418,434	69,594,138
Total net assets	<u>78,891,991</u>	<u>71,833,424</u>
Total liabilities and net assets	<u>\$ 87,348,415</u>	<u>\$ 78,786,166</u>

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

Democracy Fund, Inc.
Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues and support without donor restrictions		
Contributions of marketable securities	\$ -	\$ 4,000,000
Contributions in-kind	452,400	100,000
Interest and dividends	985,008	486,291
Net assets released from restrictions	<u>69,594,138</u>	<u>52,994,898</u>
 Total revenues and support without donor restrictions	 <u>71,031,546</u>	 <u>57,581,189</u>
Expenses		
Grants	37,636,989	37,448,303
Other program expenses	12,311,541	12,925,870
Administrative and managerial	6,168,976	4,580,026
Federal excise tax expense	666,855	767,000
Net realized loss on investments	<u>12,914</u>	<u>121,152</u>
 Total expenses and losses	 <u>56,797,275</u>	 <u>55,842,351</u>
 Increase in net assets without donor restrictions	 14,234,271	 1,738,838
Changes in net assets with donor restrictions		
Contributions of marketable securities	62,935,400	71,767,850
Net realized loss on investments	(778,766)	(2,173,712)
Unrealized gain on investments	261,800	-
Net assets released from restrictions	<u>(69,594,138)</u>	<u>(52,994,898)</u>
 (Decrease) Increase in net assets with donor restrictions	 <u>(7,175,704)</u>	 <u>16,599,240</u>
 Increase in total net assets	 7,058,567	 18,338,078
Total net assets at beginning of year	<u>71,833,424</u>	<u>53,495,346</u>
Total net assets at end of year	<u>\$ 78,891,991</u>	<u>\$ 71,833,424</u>

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

Democracy Fund, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Cash received from sale of contributed marketable securities	\$ 46,517,120	\$ 73,472,986
Restricted cash released	-	101,193
Interest and dividends received	985,008	486,291
Grants paid	(36,626,905)	(39,233,197)
Cash paid to employees and suppliers	(17,225,944)	(16,803,297)
Cash paid for taxes	<u>(760,000)</u>	<u>(547,000)</u>
Net cash provided by operating activities	<u>(7,110,721)</u>	<u>17,476,976</u>
Cash flows from investing activities		
Addition of fixed assets	<u>(39,172)</u>	<u>(1,101,765)</u>
Net cash used in investing activities	<u>(39,172)</u>	<u>(1,101,765)</u>
Net (decrease) increase in cash and cash equivalents	<u>(7,149,893)</u>	<u>16,375,211</u>
Cash and cash equivalents		
Cash and cash equivalents at beginning of year	<u>76,859,528</u>	<u>60,484,317</u>
Cash and cash equivalents at end of year	<u>\$ 69,709,635</u>	<u>\$ 76,859,528</u>
Supplemental schedule of noncash activities		
Contributions of marketable securities	\$ 62,935,400	\$ 75,767,850
Contributions in-kind	\$ 452,400	\$ 100,000

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

Democracy Fund, Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

1. Organization

Democracy Fund, Inc. ("DF") is a charitable, nonstock corporation formed on February 11, 2014 in the state of Delaware. DF is organized and operated exclusively for exempt purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code ("Code"). DF has received a determination letter from the Internal Revenue Service stating it is exempt under 501(c)(3) of the Code and specifically that it is classified as a Section 509(a) Private Foundation. Pierre Omidyar, Pat Christen, and Sarah Steven serve on the Board of Directors with Joseph Goldman and Isaiah Castilla serving as president and secretary, respectively. DF was formed in order to support charitable and educational activities in service of creating a stronger democracy. DF invests in organizations working to ensure that our political system is responsive to the public and able to meet the greatest challenges facing our nation.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") applicable to non-profit organizations. Revenues are reported as increases in net assets without donor restrictions, unless there are donor-imposed purposes and/or time restrictions on the gifted assets. Expenses are reported as decreases in net assets without donor restrictions. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Uses of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. These estimates and assumptions 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.

Net Assets without Donor Restrictions

Net assets without donor restrictions represent resources which do not have donor-imposed stipulations and are available to support DF's operations.

Net Assets with Donor Restrictions

Net assets with donor restrictions represent resources that are limited in use by DF in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of DF according to the terms of the gift. As of December 31, 2019 and 2018, DF's net assets with donor restrictions consist entirely of gifts from a related party restricted to the subsequent year's operations. Net assets with donor restrictions of \$69,594,138 and \$52,994,898 were released from restriction due to the expiration of time restrictions during the years ended December 31, 2019 and 2018, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments purchased with a remaining maturity of three months or less. At times, cash balances may exceed federally insured limits.

Democracy Fund, Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

Restricted Cash

Restricted cash consists of a collateral account for a corporate credit card program. The program was discontinued in 2018 and the collateral was released and the account was closed.

Fixed Assets

Fixed assets are recorded at cost at the date of purchase. Depreciation and amortization is recorded on assets in service using the straight-line method over the estimated useful lives of the assets, as follows:

Equipment	5 years
Furniture and fixtures	7 years
Software	3 years
Leasehold Improvements	Shorter of the lease term or estimated useful life

Investment Income

Dividend income is recognized on the ex-dividend date. Interest income is recognized on the accrual basis.

Contributions

Contributions are recognized as revenue at fair value in the period irrevocably pledged or received. Contributions of stock are valued at the average of the high and low price on the date transferred.

DF has been funded through contributions received from The Pierre M. Omidyar Trust (the "Trust"), a related party.

Grants

Grants expense consists of unconditional grants. Unconditional grants are expensed as of the effective date of the grant agreement. Certain grants may be subject to the grantee fulfilling specific conditions. Such conditional grants are considered commitments and are not recorded as expense until the conditions of the grant are met.

Tax-Exempt Status

DF, as a qualified private foundation, is exempt from federal income taxes under Section 501(c)(3) of the Code, and contributions to it may be deductible by donors for federal and state income tax purposes.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02 - *Leases* (ASC 842), which requires lessees to recognize operating and financing lease liabilities and corresponding right-of use assets on the statement of financial position. The new guidance is effective for fiscal years beginning after December 15, 2021. DF is currently evaluating the impact the new guidance will have on its financial statements.

In June 2018, the FASB issues ASU 2018-08, *Not-for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve the scope and accounting guidance for contributions received and made. The new guidance is effective for DF beginning January 1, 2020 and early adoption is permitted. DF is currently evaluating the impact the new guidance will have on its financial statements.

Democracy Fund, Inc.
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3. Fair value of Investments

In accordance with the authoritative guidance on fair value measurements and disclosures under US GAAP, DF discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that DF has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by management. Management considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

As of December 31, 2019 and 2018 all cash and cash equivalents and marketable securities were classified as level 1 within the valuation hierarchy. DF had no level 2 and 3 investments at December 31, 2019 and 2018.

4. Fixed Assets

Fixed assets at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Equipment	\$ 255,173	\$ 255,173
Furniture and fixtures	542,860	518,806
Website and software	192,850	181,100
Leasehold Improvements	771,393	768,025
	<u>1,762,276</u>	<u>1,723,104</u>
Less: Accumulated depreciation and amortization	<u>(449,625)</u>	<u>(234,584)</u>
Fixed assets, net	<u>\$ 1,312,651</u>	<u>\$ 1,488,520</u>

Depreciation and amortization expense of fixed assets during the years ended December 31, 2019 and 2018, was \$215,041 and \$133,943, respectively.

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5. Federal Excise Tax

DF is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains on donated securities based on tax cost basis as defined in the Code.

On December 20, 2019, the Further Consolidated Appropriations Act of 2020 (the “Act”) was signed into law simplifying the federal excise tax on private foundations. The Act eliminated the two-tiered system of excise tax on net investment income and replaced it with a flat excise tax rate of 1.39%. This flat rate is effective January 1, 2020 for DF.

The expense for federal excise tax is as follows:

	2019	2018
Current federal excise tax expense	\$ 446,006	\$ 767,000
Deferred federal excise tax expense	220,849	-
Excise tax expense	<u>\$ 666,855</u>	<u>\$ 767,000</u>

DF recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority’s widely understood administrative practices and precedents. If this threshold is met, DF measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. DF may recognize interest and, if applicable, penalties for any uncertain tax positions. No interest or penalties were accrued or recorded during the period ended December 31, 2019 and 2018. DF does not anticipate any significant increase or decrease to unrecognized tax benefits during the next twelve months.

6. Related Party Transactions

During the years ended December 31, 2019 and 2018, financial manager fees and other professional services of \$452,400 and \$100,000, respectively, were contributed by affiliates on behalf of DF. They were accounted for under “Contributions in-kind” in the statements of activities. In addition, during the years ended December 31, 2019 and 2018, all contributions of cash and marketable securities of \$62,935,400 and \$75,767,850, respectively, were contributed by affiliates for the benefit of DF.

Democracy Fund, Inc.
Notes to Financial Statements
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7. Grants

As of December 31, 2019 and 2018, grant expense was as follows:

	2019	2018
Grant payments	\$ 36,626,905	\$ 39,233,197
Less: payments for unconditional grants committed in the prior year	(3,690,106)	(5,475,000)
Unconditional grants committed in the current year but paid in future year	<u>4,700,190</u>	<u>3,690,106</u>
Grant expense	<u>\$ 37,636,989</u>	<u>\$ 37,448,303</u>

As of December 31, 2019 and 2018, DF had total unfunded commitments of \$18,168,613 and \$7,556,500, respectively, related to conditional grants.

As of December 31, 2019, DF had \$4,700,190 of payables related to unconditional grants to be paid in 2020. As of December 31, 2018, DF had \$3,690,106 of payables related to unconditional grants paid in 2019.

8. Commitments

DF leases its main headquarters under a non-cancelable lease. In March 2018, DF expanded its headquarters and modified its existing lease. The term of the lease expires in 2029. As of December 31, 2019, DF had a total of \$12,640,340 in obligations under operating leases, consisting of a real estate lease. Rental expense related to the lease was \$1,366,947 and \$1,243,151 for the years ended December 31, 2019 and 2018, respectively.

The minimum rental payments applicable to DF's lease are as follows:

Years Ended	Operating Leases
2020	1,152,009
2021	1,194,591
2022	1,242,714
2023	1,276,893
2024	1,311,975
Thereafter	<u>6,462,158</u>
Total minimum lease payments	<u>\$ 12,640,340</u>

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9. Analysis of Expenses

DF's expenses have been allocated among grants, other program expenses and administrative & managerial activities, based on the function that benefited from the incurred expenses and estimates made by management.

The total functional expenses displayed by natural expense classification, for the years ended December 31, 2019 and 2018 were as follows:

2019				
	Grants	Other Program Expenses	Administrative and Managerial	Total
Grants awarded	\$ 37,636,989	\$ -	\$ -	\$ 37,636,989
Salary, benefits, and payroll taxes	-	5,024,518	3,167,340	8,191,858
Professional fees	-	4,630,717	1,878,679	6,509,396
Occupancy	-	1,373,851	829,983	2,203,834
Travel, conferences and meetings	-	1,282,455	292,974	1,575,429
Taxes	-	-	666,855	666,855
	<u>\$ 37,636,989</u>	<u>\$ 12,311,541</u>	<u>\$ 6,835,831</u>	<u>\$ 56,784,361</u>

2018				
	Grants	Other Program Expenses	Administrative and Managerial	Total
Grants awarded	\$ 37,448,303	\$ -	\$ -	\$ 37,448,303
Salary, benefits, and payroll taxes	-	4,755,710	2,349,748	7,105,458
Professional fees	-	4,874,480	1,689,004	6,563,484
Occupancy	-	1,533,076	408,285	1,941,361
Travel, conferences and meetings	-	1,762,604	132,989	1,895,593
Taxes	-	-	767,000	767,000
	<u>\$ 37,448,303</u>	<u>\$ 12,925,870</u>	<u>\$ 5,347,026</u>	<u>\$ 55,721,199</u>

10. Liquidity

DF's financial assets available within one year of December 31, 2019 to meet general expenditures is \$85,598,035 in cash and cash equivalents and marketable securities. DF endeavors to structure its financial assets to be available and liquid as its general expenditures, liabilities, and other obligations become due. While DF may realize fluctuations in planned expenditures within one year of December 31, 2019, a deficit whereby expenditures exceed the financial assets available is unlikely.

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11. Subsequent Events

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of August 14, 2020, DF operations have continued at its planned pace. Global equity markets have experienced volatility and weakness. As of August 14, 2020, the date that these financial statements were available for issue, the fair value of DF's investments did not decline significantly and have since been sold.

We cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact DF's statement of financial position, results of operations, and cash flows past fiscal 2020.