

Democracy Fund, Inc.

Financial Statements

As of December 31, 2014 and for the period

February 11, 2014 (inception) to December 31, 2014



Independent Auditor's Report

To the Board of Directors of
Democracy Fund, Inc.

We have audited the accompanying financial statements of Democracy Fund, Inc. ("DF"), which comprise the statements of financial position as of December 31, 2014, and the related statements of activities and changes in net assets and of cash flows for the period of inception (February 11, 2014) to December 31, 2014.

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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 DF'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 DF'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. at December 31, 2014, and the changes in its net assets and its cash flows for the period of inception (February 11, 2014) to December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Priscilla A. Hunt-Crogers, LLP".

July 9, 2015

Democracy Fund, Inc.
Statement of Financial Position
December 31, 2014

| | 2014 |
|---|----------------------|
| Assets | |
| Cash | \$ 6,345,996 |
| Restricted cash | 20,000 |
| Marketable securities, at fair value | 18,519,600 |
| Prepaid expenses and other assets | 17,954 |
| Total assets | <u>\$ 24,903,550</u> |
| Liabilities and Net Assets | |
| Accounts payable and accrued expenses | \$ 142,872 |
| Grants payable | 1,437,500 |
| Federal excise tax payable | 110,518 |
| Deferred federal excise tax liability | 370,392 |
| Total liabilities | <u>2,061,282</u> |
| Unrestricted net assets | <u>22,842,268</u> |
| Total liabilities and unrestricted net assets | <u>\$ 24,903,550</u> |

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

Democracy Fund, Inc.
Statement of Activities and Change in Net Assets
Period from February 11, 2014 (inception) to December 31, 2014

| | 2014 |
|--|----------------------|
| Revenues and gains | |
| Contributions of cash | \$ 120,000 |
| Contributions of marketable securities | 30,587,113 |
| Contributions in-kind | 314,718 |
| Interest and dividends | 903 |
| Total revenues and gains | <u>31,022,734</u> |
| Expenses and losses | |
| Net realized losses on investments | 55,614 |
| Net unrealized loss on investments | 179,850 |
| Grant expenses | 5,956,175 |
| Program expenses | 607,017 |
| Administrative expenses | 780,900 |
| Federal excise tax expense | 600,910 |
| Total expenses and losses | <u>8,180,466</u> |
| Increase in unrestricted net assets | <u>22,842,268</u> |
| Unrestricted net assets at beginning of period | - |
| Unrestricted net assets at end of period | <u>\$ 22,842,268</u> |

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

Democracy Fund, Inc.
Statement of Cash Flows
Period from February 11, 2014 (inception) to December 31, 2014

| | 2014 |
|---|---------------------|
| Cash flows from operating activities | |
| Increase in unrestricted net assets | \$ 22,842,268 |
| Adjustments to reconcile increase in unrestricted net assets in cash used in/provided by operating activities | |
| Contributions of marketable securities | (30,587,113) |
| Net unrealized loss on investments | 179,850 |
| Net realized loss on investments | 55,614 |
| Proceeds from sale of investments | 11,832,049 |
| Changes in assets and liabilities | |
| Prepaid expenses and other assets | (17,954) |
| Accounts payable and accrued expenses | 142,872 |
| Grants payable | 1,437,500 |
| Federal excise tax payable | 110,518 |
| Deferred federal excise taxes | 370,392 |
| Net cash used in/provided by operating activities | <u>6,365,996</u> |
| Cash flows from investing activities | |
| Changes in restricted cash | (20,000) |
| Net cash used in investing activities | <u>(20,000)</u> |
| Net increase in cash and cash equivalents | <u>6,345,996</u> |
| Cash and cash equivalents | |
| Cash and cash equivalents at beginning of period | - |
| Cash and cash equivalents at end of period | <u>\$ 6,345,996</u> |
| Supplemental schedule of noncash activities | |
| Contributions of marketable securities | \$ 30,587,113 |
| Contributions in-kind | \$ 314,718 |
| Supplemental disclosures of cash flow information | |
| Federal excise taxes paid | \$ 120,000 |

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

Democracy Fund, Inc.

Notes to Financial Statements

December 31, 2014

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, Michael Mohr and Will Fitzpatrick serve on the Board of Directors with Joseph Goldman serving as president. 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. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Revenues are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Unrestricted Net Assets

Unrestricted net assets represent resources that are not subject to donor-imposed restrictions and are available to support DF's activities.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Restricted Cash

Restricted cash consists of a collateral account for a corporate credit card program.

Fair value of financial instruments

In accordance with the authoritative guidance on fair value measurements and disclosures under 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:

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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.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities and certain money market securities. Management does not adjust the quoted price for such instruments, even in situations where DF holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. DF had no level 2 investments as of December 31, 2014.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by Management in the absence of market information. Assumptions used by the Management due to the lack of observable inputs may significantly impact the resulting fair value and therefore DF's results of operations. DF had no level 3 investments as of December 31, 2014.

The authoritative guidance on disclosures about fair value of financial instruments requires the disclosure of the estimated fair value of financial instruments including those financial instruments for which we did not elect the fair value option.

The carrying values of the following Fund's financial instruments approximate fair value based on the short maturity of these items: cash and cash equivalents, accounts payables and accrued expenses.

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. To date, such contributions have been unrestricted.

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Grants

Grants expenses included unconditional grants. Unconditional grants are expensed when grant agreements are executed. 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.

Functional Expense Allocations

Expenses are allocated between program expenses and administration expenses based on the function that benefited from the incurred expenses and estimates made by management.

Income Taxes

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

3. Fair value of investments

The following table presents the investments by level within the valuation hierarchy as of December 31, 2014:

| | Assets at Fair Value as of December 31, 2014 | | | |
|---------------------------|---|----------------|----------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 6,365,996 | \$ - | \$ - | \$ 6,365,996 |
| Marketable securities | | | | |
| Equity securities | | | | |
| Common stock | 18,519,600 | - | - | 18,519,600 |
| Total | \$24,885,596 | \$ - | \$ - | \$24,885,596 |

4. 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. Deferred excise taxes were provided at 2% of the unrealized gain as calculated using the tax cost basis as at December 31, 2014. The expense for federal excise tax is as follows:

| | 2014 |
|----------------------------|-------------------|
| Current | \$ 230,518 |
| Deferred | 370,392 |
| Federal excise tax expense | <u>\$ 600,910</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. No interest or penalties were accrued or recorded during the period ended December 31, 2014. DF does not anticipate any significant increase or decrease to unrecognized tax benefits during the next twelve months.

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5. Related Party Transactions

During the period ended December 31, 2014, financial manager fees of \$100,000, recruiting fees of \$67,500, legal fees of \$54,917, rent expense of \$51,752, and other expenses of \$40,549 were contributed by affiliates on behalf of DF, and accounted for under "Contributions in-kind" in the Statement of Activities and Changes in Net Assets. In addition, all contributions of cash and marketable securities were contributed by affiliates on behalf of DF.

During the period, trademark rights and some assets were transferred from affiliates to DF for no consideration.

6. Grants

As of December 31, 2014, grant expense is as follows:

| | 2014 |
|---|---------------------|
| Grant payments | \$ 4,518,675 |
| Committed in the current year on unconditional grants | <u>1,437,500</u> |
| Grant expense | <u>\$ 5,956,175</u> |

Based on a transfer agreement between Omidyar Network Fund, Inc. ("ONFI") and DF dated July 1, 2014, DF assumed certain liabilities for grants approved prior to July 1, 2014 by the Board of Directors of ONFI. The total outstanding grants transferred on July 1, 2014 equates to \$4,104,000, of which \$1,278,000 were conditional grants that were expensed in the statement of activities and changed in net assets as the conditions were met during the period ended December 31, 2014. The remaining \$2,826,000 have not been recognized in the 2014 financial statements since the stipulated conditions have not been met. As of December 31, 2014, DF had total unfunded commitments of \$6,852,500 related to conditional grants.

As of December 31, 2014, DF had \$1,437,500 payables related to unconditional grants due in 2015.

7. Subsequent Events

Management has performed an evaluation of subsequent events through July 9, 2015, which is the date DF's financial statements were available to be issued.

By January 30, 2015, the marketable securities valued at \$18,519,660 as of December 31, 2014, were sold for proceeds of \$17,979,712.