

Democracy Fund, Inc.

Financial Statements

**December 31, 2015, December 31, 2014 and for the
period February 11, 2014 (inception) through
December 31, 2014**



Independent Auditor's Report

To the Board of Directors
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, 2015 and 2014, and the related statements of activities and changes in net assets and of cash flows for the year then ended and 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 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 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, 2015 and 2014, and the changes in its net assets and its cash flows for the year then ended and 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 black ink, appearing to read "PricewaterhouseCoopers LLP", is written over a faint, light-colored signature line.

San Francisco, California
May 27, 2016

Democracy Fund, Inc.
Statements of Financial Position
December 31, 2015 and December 31, 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 33,069,430	\$ 6,345,996
Restricted cash	20,165	20,000
Marketable securities, at fair value	-	18,519,600
Prepaid expenses and other assets	83,093	17,954
Total assets	\$ 33,172,688	\$ 24,903,550
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 640,745	\$ 142,872
Grants payable	2,680,645	1,437,500
Federal excise tax payable	338,759	110,518
Deferred federal excise tax liability	-	370,392
Total liabilities	3,660,149	2,061,282
Unrestricted net assets	29,512,539	22,842,268
Total liabilities and unrestricted net assets	\$ 33,172,688	\$ 24,903,550

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

Democracy Fund, Inc.
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2015 and the period February 11, 2014 (inception) to
December 31, 2014

	2015	2014
Revenues and gains		
Contributions of cash	\$ -	\$ 120,000
Contributions of marketable securities	23,173,200	30,587,113
Contributions in-kind	626,198	314,718
Interest and dividends	3,440	903
Change in unrealized gains on investments	179,850	-
Total revenues and gains	23,982,688	31,022,734
Expenses and losses		
Net realized losses on investments	868,211	55,614
Change in unrealized loss on investments	-	179,850
Grant expenses	11,568,791	5,956,175
Program expenses	2,520,913	607,017
Administrative expenses	1,906,653	780,900
Federal excise tax expense	447,849	600,910
Total expenses and losses	17,312,417	8,180,466
Increase in unrestricted net assets	6,670,271	22,842,268
Unrestricted net assets at beginning of period	22,842,268	-
Unrestricted net assets at end of period	\$ 29,512,539	\$ 22,842,268

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

Democracy Fund, Inc.
Statements of Cash Flows
Year Ended December 31, 2015 and the period February 11, 2014 (inception) to
December 31, 2014

	2015	2014
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 6,670,271	\$ 22,842,268
Adjustments to reconcile increase in unrestricted net assets in cash and cash equivalents used in/provided by operating activities		
Contributions of marketable securities	(23,173,200)	(30,587,113)
Net unrealized (gain) loss on investments	(179,850)	179,850
Net realized loss on investments	868,211	55,614
Proceeds from sale of investments	41,004,439	11,832,049
Changes in assets and liabilities		
Prepaid expenses and other assets	(65,139)	(17,954)
Accounts payable and accrued expenses	497,873	142,872
Grants payable	1,243,145	1,437,500
Federal excise tax payable	228,241	110,518
Deferred federal excise taxes	(370,392)	370,392
Net cash used in/provided by operating activities	<u>26,723,599</u>	<u>6,365,996</u>
Cash flows from investing activities		
Change in restricted cash	(165)	(20,000)
Net cash used in investing activities	<u>(165)</u>	<u>(20,000)</u>
Net increase in cash and cash equivalents	<u>26,723,434</u>	<u>6,345,996</u>
Cash and cash equivalents		
Cash and cash equivalents at beginning of period	6,345,996	-
Cash and cash equivalents at end of period	<u>\$ 33,069,430</u>	<u>\$ 6,345,996</u>
Supplemental schedule of noncash activities		
Contributions of marketable securities	\$ 23,173,200	\$ 30,587,113
Contributions in-kind	\$ 626,198	\$ 314,718
Supplemental disclosures of cash flow information		
Federal excise taxes paid	\$ 590,000	\$ 120,000

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

Democracy Fund, Inc.
Notes to Financial Statements
December 31, 2015 and the period February 11, 2014 (inception) to 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, Pat Christen 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

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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.

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, 2015 and 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, 2015 and 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.

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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.

Grants

Grants expense consists of 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.

Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-05 - *Leases* (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors).

The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the financial statements as DF has certain operating lease arrangements for which it is the lessee.

ASC 842 supersedes the previous leases standard, ASC 840 *Leases*. For private companies, the standard is effective for fiscal years beginning on or after December 15, 2019, with early adoption permitted. DF is in the process of evaluating the impact of this new guidance on its financial statements.

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3. Fair value of investments

The following table presents the investments by level within the valuation hierarchy as of December 31, 2015 and 2014:

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$33,069,430	\$ -	\$ -	\$ 33,069,430
Marketable securities				
Equity securities				
Common stock	-	-	-	-
Total investments	-	-	-	-
Total	\$33,069,430	\$ -	\$ -	\$33,069,430

	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 6,345,996	\$ -	\$ -	\$ 6,345,996
Marketable securities				
Equity securities				
Common stock	18,519,600	-	-	18,519,600
Total investments	18,519,600	-	-	18,519,600
Total	\$24,865,596	\$ -	\$ -	\$24,865,596

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 for 2015 and 2014. The expense for federal excise tax is as follows:

	2015	2014
Current provision	\$ 818,241	\$ 230,518
Deferred (benefit) provision	(370,392)	370,392
Federal excise tax expense	<u>\$ 447,849</u>	<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, 2015 and 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 year and period ended December 31, 2015 and 2014, financial manager fees of \$137,500 and \$100,000, recruiting fees of \$22,300 and \$67,500, legal fees of \$90,000 and \$54,917, rent expenses of \$214,926 and \$51,752, and other expenses of \$161,472 and \$40,551 were contributed by affiliates on behalf of DF. They were 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 for benefit of DF.

During 2014, trademark rights and some assets were transferred from affiliates to DF for no consideration.

6. Grants

As of December 31, 2015 and 2014, grant expense was as follows:

	2015	2014
Grant payments	\$ 10,325,646	\$ 4,518,675
Less: committed in the prior year on unconditional grants and paid	(1,437,500)	-
Committed in the current year on unconditional grants	<u>2,680,645</u>	<u>1,437,500</u>
Grant expense	<u>\$ 11,568,791</u>	<u>\$ 5,956,175</u>

Based on a transfer agreement between 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 equated to \$4,104,000, \$1,278,000 of which were conditional grants that were expensed during the period ended in 2014 in the statement of activities and changes in net assets as the conditions were met. The remaining \$2,826,000 for which conditions had not been met were reflected as unfunded commitments. As of December 31, 2015 and 2014, DF had total unfunded commitments of \$6,708,750 and \$6,852,500, respectively, related to conditional grants.

As of December 31, 2015, DF had \$2,680,645 of payables related to unconditional grants due in 2016.

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7. Commitments

As of December 31, 2015, DF had a total of \$9,911,083 in obligations under operating leases, consisting of a real estate lease.

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

Years Ended	Operating Leases
2016	\$ 52,957
2017	644,206
2018	661,909
2019	680,116
2020	698,827
Thereafter	7,173,067
Total minimum lease payments	<u>\$ 9,911,083</u>

8. Subsequent Events

Management has performed an evaluation of subsequent events through May 27, 2016, which is the date DF's financial statements were available to be issued and has concluded that there were no significant subsequent events relevant for financial statements disclosure.