

# Financial Statements

Texas Democracy Foundation

*As of and for the years ended June 30, 2019 and 2018  
with Report of Independent Auditors*



AUDIT • TAX • ADVISORY

## Report of Independent Auditors

To the Board of Directors of  
Texas Democracy Foundation

We have audited the accompanying financial statements of Texas Democracy Foundation, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, statements of functional expenses, and statements of cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Democracy Foundation as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Holtzman Partners, LLP*

February 27, 2020

# Texas Democracy Foundation

## Statements of Financial Position

	<b>As of June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 196,108	\$ 199,197
Investments	557,265	490,541
Accounts receivable	69,667	29,250
Prepays and other current assets	850	3,775
Total current assets	823,890	722,763
Property and equipment, net	10,439	10,020
Intangibles	126,732	126,732
Other assets	2,200	2,200
Total assets	\$ 963,261	\$ 861,715
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 8,326	\$ 2,420
Accrued expenses	42,738	43,286
Deferred subscription income	50,011	50,647
Total current liabilities	101,075	96,353
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	693,685	698,257
With donor restrictions	168,501	67,105
Total net assets	862,186	765,362
Total liabilities and net assets	\$ 963,261	\$ 861,715

*See accompanying notes to the financial statements.*

Texas Democracy Foundation

Statement of Activities

For the Year Ended June 30, 2019

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue, gains, and support:</b>			
Contributions	\$ 282,610	\$ 5,000	\$ 287,610
Foundation grants	543,150	183,460	726,610
Subscription income	71,812	—	71,812
Merchandise sales	606	—	606
Event income	225,376	—	225,376
Investment income, net	21,768	—	21,768
Royalties	5,976	—	5,976
In-kind contributions	—	—	—
Other income	8,745	—	8,745
Net assets released from restriction	87,064	(87,064)	—
Total revenue, gains, and support	<u>1,247,107</u>	<u>101,396</u>	<u>1,348,503</u>
<b>Expenses:</b>			
Program services:			
The Texas Observer	864,916	—	864,916
Total program services	<u>864,916</u>	<u>—</u>	<u>864,916</u>
Supporting services:			
Management and general	272,933	—	272,933
Fundraising	113,830	—	113,830
Total supporting services	<u>386,763</u>	<u>—</u>	<u>386,763</u>
Total expenses	<u>1,251,679</u>	<u>—</u>	<u>1,251,679</u>
Change in net assets	(4,572)	101,396	96,824
Net assets at beginning of year	698,257	67,105	765,362
Net assets at end of year	<u>\$ 693,685</u>	<u>\$ 168,501</u>	<u>\$ 862,186</u>

See accompanying notes to the financial statements.

# Texas Democracy Foundation

## Statement of Activities

For the Year Ended June 30, 2018

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue, gains, and support:</b>			
Contributions	\$ 192,893	\$ —	\$ 192,893
Foundation grants	444,500	154,600	599,100
Subscription income	199,809	—	199,809
Merchandise sales	544	—	544
Event income	274,641	—	274,641
Investment income, net	8,084	—	8,084
Royalties	1,525	—	1,525
In-kind contributions	2,021	—	2,021
Other income	3,455	—	3,455
Net assets released from restriction	87,495	(87,495)	—
Total revenue, gains, and support	<u>1,214,967</u>	<u>67,105</u>	<u>1,282,072</u>
<b>Expenses:</b>			
Program services:			
The Texas Observer	850,743	—	850,743
Total program services	<u>850,743</u>	<u>—</u>	<u>850,743</u>
Supporting services:			
Management and general	268,648	—	268,648
Fundraising	106,249	—	106,249
Total supporting services	<u>374,897</u>	<u>—</u>	<u>374,897</u>
Total expenses	<u>1,225,640</u>	<u>—</u>	<u>1,225,640</u>
Change in net assets	(10,673)	67,105	56,432
Net assets at beginning of year	708,930	—	708,930
Net assets at end of year	<u>\$ 698,257</u>	<u>\$ 67,105</u>	<u>\$ 765,362</u>

See accompanying notes to the financial statements.

Texas Democracy Foundation  
Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services			Supporting Services			
	Circulation	Editorial	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and wages	\$ 133,922	\$ 367,659	\$ 501,581	\$ 113,292	\$ 30,662	\$ 143,954	\$ 645,535
Employee benefits	12,529	34,396	46,925	10,599	2,869	13,468	60,393
Payroll taxes	10,262	28,173	38,435	8,681	2,349	11,030	49,465
Contract labor	–	7,840	7,840	40,758	–	40,758	48,598
Postage and freight	27,557	–	27,557	363	544	907	28,464
Telephone and internet	837	2,299	3,136	708	192	900	4,036
Occupancy	5,477	15,036	20,513	4,633	1,254	5,887	26,400
Printing and publication	38,036	–	38,036	30,172	–	30,172	68,208
Professional development	–	–	–	12,848	–	12,848	12,848
Event expenses	–	–	–	–	75,334	75,334	75,334
Utilities	689	1,892	2,581	583	158	741	3,322
Property taxes	–	–	–	157	–	157	157
Insurance	–	–	–	5,129	–	5,129	5,129
Advertising	2,289	–	2,289	–	–	–	2,289
Credit card services charges	–	10,934	10,934	–	–	–	10,934
Other costs	–	–	–	11,207	–	11,207	11,207
Freelance writing	–	51,094	51,094	–	–	–	51,094
Freelance expenses	–	66,186	66,186	–	–	–	66,186
Subscriptions	–	13,245	13,245	–	–	–	13,245
Office supplies	1,462	4,015	5,477	1,237	335	1,572	7,049
Information technology	6,115	4,990	11,105	32,076	–	32,076	43,181
Travel	–	15,810	15,810	–	–	–	15,810
Total before depreciation	239,175	623,569	862,744	272,443	113,697	386,140	1,248,884
Depreciation	580	1,592	2,172	490	133	623	2,795
Total expenses	\$ 239,755	\$ 625,161	\$ 864,916	\$ 272,933	\$ 113,830	\$ 386,763	\$ 1,251,679

*See accompanying notes to the financial statements.*

Texas Democracy Foundation  
Statement of Functional Expenses  
For the Year Ended June 30, 2018

	Program Services			Supporting Services			Total
	Circulation	Editorial	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 131,256	\$ 360,340	\$ 491,596	\$ 111,037	\$ 30,051	\$ 141,088	\$ 632,684
Employee benefits	13,642	37,452	51,094	11,541	3,123	14,664	65,758
Payroll taxes	11,255	30,898	42,153	9,521	2,577	12,098	54,251
Contract labor	–	11,901	11,901	55,472	–	55,472	67,373
Postage and freight	13,722	–	13,722	453	679	1,132	14,854
Telephone and internet	881	2,420	3,301	746	202	948	4,249
Occupancy	5,477	15,036	20,513	4,633	1,254	5,887	26,400
Printing and publication	44,592	–	44,592	19,875	–	19,875	64,467
Professional development	–	–	–	8,707	–	8,707	8,707
Event expenses	–	–	–	–	67,280	67,280	67,280
Utilities	623	1,711	2,334	527	143	670	3,004
Property taxes	–	–	–	490	–	490	490
Insurance	–	2,100	2,100	2,916	–	2,916	5,016
Advertising	3,870	–	3,870	–	–	–	3,870
Credit card services charges	–	8,698	8,698	–	–	–	8,698
Other costs	–	–	–	2,589	–	2,589	2,589
Freelance writing	–	99,211	99,211	–	–	–	99,211
Subscriptions	–	11,189	11,189	–	–	–	11,189
Office supplies	2,366	6,494	8,860	2,001	542	2,543	11,403
Information technology	5,414	4,475	9,889	36,670	–	36,670	46,559
Travel	–	19,211	19,211	–	–	–	19,211
Total before depreciation	233,098	611,136	844,234	267,178	105,851	373,029	1,217,263
Depreciation	1,738	4,771	6,509	1,470	398	1,868	8,377
Total expenses	\$ 234,836	\$ 615,907	\$ 850,743	\$ 268,648	\$ 106,249	\$ 374,897	\$ 1,225,640

*See accompanying notes to the financial statements*

# Texas Democracy Foundation

## Statements of Cash Flows

	<b>Years Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 96,824	\$ 56,432
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,795	8,377
Realized and unrealized gain on investments	(7,083)	(6,171)
Changes in operating assets and liabilities:		
Accounts receivable	(40,417)	(14,075)
Prepaid expenses and other current assets	2,925	(2,200)
Accounts payables	5,906	(30,596)
Accrued expenses	(548)	43,286
Deferred subscription income	(636)	(10,808)
Net cash provided by operating activities	<b>59,766</b>	44,245
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment, net	(3,214)	(5,951)
Purchases of investments	(155,558)	(274,297)
Sales of investments	95,917	63,240
Net cash used in investing activities	<b>(62,855)</b>	(217,008)
Net change in cash and cash equivalents	(3,089)	(172,763)
Cash and cash equivalents, beginning of year	199,197	371,960
Cash and cash equivalents, end of year	<b>\$ 196,108</b>	\$ 199,197
<b>Supplemental disclosure of cash flow information:</b>		
In-kind contributions	\$ -	\$ 2,021

*See accompanying notes to financial statements.*



# Texas Democracy Foundation

## Notes to the Financial Statements

As of and for the years ended June 30, 2019 and 2018

### **1. Organization and Business Description**

The Texas Democracy Foundation (the “Foundation”) is a non-profit organization that was incorporated on December 31, 1991. The Foundation serves to publish and promote The Texas Observer, a monthly periodical addressing public affairs.

The mission of the Foundation is to foster, promote, and encourage the advancement of knowledge, information and understanding of public affairs, government, literature and the arts. The goal of the Foundation is to cover stories crucial to public interest and to provoke dialogue that promotes democratic participation and open government, in pursuit of a vision of Texas where education, justice and material progress are available.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Financial Statement Presentation**

Net assets, revenue, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as:

Net Assets Without Donor Restrictions - Net assets without donor restrictions result from operating revenues, unrestricted contributions, dividends and interest income, less expenses incurred in operations.

Net Assets With Donor Restrictions - Support that is restricted by the donor is recorded as an increase in net assets with donor restrictions. When a restriction is satisfied, restricted net assets are reclassified to net assets without donor restrictions. Support that is restricted by the donor that is received and satisfied in the same year is treated as unrestricted support.

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Rural reporting	\$ 136,101	\$ 67,105
Diversity in the newsroom	25,900	–
Criminal justice reporting	6,500	–
Total net assets with donor restrictions	<u>\$ 168,501</u>	<u>\$ 67,105</u>

### Cash and Cash Equivalents

The Foundation considers all highly liquid investments acquired with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value, because of the short maturity of these instruments.

### Investments

Investments consist of debt and equity securities, and money market funds that are stated at fair market value. Realized and unrealized gains and losses are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

### Accounts Receivable

Accounts receivable are recorded at net realizable value. The Foundation continually assesses the collectability of outstanding donor invoices and if deemed necessary, maintains an allowance for estimated losses resulting from the non-collection of donor receivables. In estimating this allowance, the Foundation considers factors such as: historical collection experience, a donor's current credit-worthiness, donor concentrations, age of the receivable balance – both individually and in the aggregate – and general economic conditions that may affect a donor's ability to pay. Actual donor collections could differ from the Foundation's estimates. At June 30, 2019 and 2018, the Foundation did not provide for an allowance for doubtful accounts, as all amounts outstanding were deemed collectible.

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Foundation maintains its cash and cash equivalent balances in highly rated financial institutions, which at times may exceed federally insured limits or be held in foreign jurisdictions. The Foundation has not experienced any loss relating to cash and cash equivalents in these accounts. The Foundation performs periodic credit evaluations of its donors' financial condition and generally does not require collateral.

Two donors comprised 30% (20% and 10%) and three donors comprised 41% (12%, 18% and 11%) of revenue for the years ended June 30, 2019 and 2018, respectively.

Loss of these donors could have a material adverse impact on the results of operations and financial position of the Foundation.

One donor represented more than 10% of total accounts receivable as of June 30, 2019 and two donors represented more than 10% of total accounts receivable as of June 30, 2018. Additionally, the Molly Gala represents more than 10% of the Foundation's fundraising revenue as of June 30, 2019 and 2018. Loss of this funding source could have a material adverse impact on the results of operations and financial position of the Foundation.

#### Fair Value of Financial Instruments

The Foundation groups its assets and liabilities measured at fair value in a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets, with valuations obtained from readily available pricing sources for market transactions involving identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

The level of the fair value hierarchy in which the fair value measurement falls is determined by the lowest level input that is significant to the fair value measurement.

The Foundation's financial instruments consist principally of cash and cash equivalents, accounts receivable, investments, accounts payable, and accrued expenses. The carrying amounts of cash and cash equivalents, accounts receivable, intangibles, accounts payable, and accrued expenses are considered to approximate their respective fair values due to the short-term nature of such financial instruments. Investments, measured at fair value on a recurring basis, are categorized as Level 1 based on quoted prices in active markets.

The Foundation recognizes transfers between levels at the end of the reporting period as if the transfers occurred on the last day of the reporting period. There were no transfers during fiscal years 2019 and 2018.

### **Property and Equipment, net**

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally 5 to 10 years. Leasehold improvements are amortized over the shorter of the remaining terms of the respective leases or the remaining useful lives of the improvements. When depreciable assets are sold, retired, or disposed of, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in other income (expense) in the Foundation's statement of operations in the period incurred. Major additions and betterments are capitalized. Repairs, maintenance, and minor replacements that do not materially improve or extend the lives of the respective assets are charged to operating expense as incurred.

### **Long-Lived Assets**

Long-lived assets, which consist primarily of property and equipment and intangible assets, are reviewed for impairment whenever events or circumstances indicate their carrying value may not be recoverable. When such events or circumstances arise, an estimate of future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if impairment exists. If the asset is determined to be impaired, the impairment loss is measured based on the excess of its carrying value over its fair value. Assets to be disposed of are reported at the lower of carrying value or net realizable value. No indicators of impairment were identified during the years ended June 30, 2019 and 2018.

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **Indefinite-Lived Intangible Assets**

Indefinite-lived intangible assets are not amortized but are tested for impairment at least annually. This assessment is performed on an annual basis, or when an event occurs or circumstances change that could likely reduce the fair value of a reporting unit below its carrying value. The determination of fair value is generally based on either market approach values or discounted estimated future cash flows. The determination of fair value is sensitive to the assumptions and estimates used. Accordingly, any changes in such assumptions or estimates could have a material impact on the resulting fair value and, thus, the assessment of impairment, if any. No impairment charges were recorded in the years ended June 30, 2019 and 2018.

#### **Operating Leases**

The Foundation accounts for rent expense for its operating leases on a straight-line basis in accordance with authoritative guidance on accounting for leases. The Foundation leases an office facility that has terms expiring in fiscal year 2019. The term of the lease is considered its initial obligation period, which does not include option periods.

#### **Contributions**

The Foundation recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions, net assets, and changes therein are classified and reported, based on the existence or absence of donor-imposed restrictions. When donor-imposed restrictions expire, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

#### **Foundation Grants**

The Foundation receives various local grants that fund the operations of the Foundation. Amounts received under these grants are recorded as grants and contributions in the accompanying statements of activities, and related expenses are recorded as program expenses.

#### **Subscription Revenue**

Subscription revenue is recognized over the term of the subscriptions on a pro-rata basis. Revenue that is collected for future years is recorded as deferred subscription income.

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Advertising

The Foundation expenses advertising costs as incurred. Advertising expenses were approximately \$1,179 and \$3,870 for the years ended June 30, 2019 and 2018, respectively, and are included in program services expenses in the accompanying statements of activities.

#### Tax-Exempt Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Foundation has made no provision for federal income taxes in the accompanying financial statements.

The Foundation accounts for income taxes under FASB ASC Topic 740, *Income Taxes*. The Foundation evaluates uncertain tax positions, if any exist, under this topic. The Foundation accounts for uncertainty of income taxes based on a “more-likely-than-not” threshold for the recognition and de-recognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. The Foundation currently does not have any tax positions that it would consider uncertain at June 30, 2019.

#### Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates guidance for when revenue should be recognized from the exchange of goods or services. ASU No. 2016-08 was issued in March 2016 to clarify the principal versus agent guidance in this new revenue recognition standard. ASU 2016-10 was issued in April 2016 to clarify the guidance on accounting for licenses of intellectual property and identifying performance obligations in the new revenue recognition standard. ASU 2016-12 was issued in May 2016 to clarify the guidance on transition, collectibility, noncash consideration and the presentation of sales and other similar taxes in the new revenue recognition standard. ASU 2016-20 was issued in December 2016 to make technical corrections and improvements on narrow aspects of this guidance. ASU No. 2017-10 was issued in May 2017 to clarify that an operating entity in a service concession arrangement must consider the grantor the customer of the operation services it provides when it applies this revenue guidance in ASC 606. ASU No. 2015-14 was issued in August 2015 to defer the effective date of ASU 2014-09 for one year. For private companies, this standard is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the effect of these provisions on the Foundation’s financial position and results of operations.

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The standard also expands the required quantitative and qualitative disclosures surrounding leases. In July 2018 this standard was updated and improved through ASU 2018-10 and ASU 2018-11. In November 2019, the FASB issued ASU 2019-10, which changed the effective date for entities other than public business entities to annual periods beginning after December 15, 2020. Early adoption is permitted. This standard will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. However, per ASU 2018-11, the Company can elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. Management is currently evaluating the effect of these provisions on the Company's financial position and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. This guidance is effective for annual periods beginning after December 15, 2020. Early adoption is permitted. This standard will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management is currently evaluating the effect of these provisions on the Foundation's financial position and results of operations.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities will determine whether to account for a transfer of assets as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. While accounting for contributions primarily affects not-for-profit entities, the clarified guidance applies to all entities (including business entities) that receive or make contributions, except for certain transactions such as transfers of assets that business entities receive from government entities. For private entities in which the entity serves as the resource recipient, this standard is effective for annual reporting periods beginning after December 15, 2018. For private entities in which the entity serves as the resource provider, this standard is

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the effect of these provisions on the Foundation's financial position and results of operations.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The guidance is effective for all entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the effect of these provisions on the Foundation's financial position and results of operations.

In March 2019, the FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The amendments in this Update modify the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds when collection items are removed from a collection. The amendments in this update are effective for fiscal years beginning after December 15, 2019. Early application of the amendments is permitted. Entities are required to apply the amendments in this update on a prospective basis. Management does not expect this standard to have a material effect on its financial position and results of operations.

### Subsequent Events

Subsequent events have been evaluated through February 27, 2020, which represents the date the financial statements were available to be issued, and no events have occurred through that date that would impact the financial statements.

### 3. Liquidity and Availability of Resources

The Foundation's financial assets available within one year of the balance sheet date for general expenditures are as follows:

Financial assets, at year end	\$ 823,040
Less assets unavailable for general expenditures within one year due to:	
Restricted by donor with purpose restrictions	<u>(168,501)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 654,539</u>



# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### 3. Liquidity and Availability of Resources (continued)

The Foundation is supported by contributions with and without donor restrictions. The contributions are substantially comprised of contributions without donor restrictions. Because a donor's restriction requires resources to be used in a particular manner in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year. As a part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short-term investments, such as money market funds and short-term treasury instruments.

### 4. Property and Equipment

Property and equipment consist of the following:

	Years Ended June 30,	
	2019	2018
Furniture & fixtures	\$ 873	\$ 873
Computers and equipment	118,923	115,709
Website	47,250	47,250
	<u>167,046</u>	<u>163,832</u>
Less: Accumulated depreciation	(156,607)	(153,812)
Property and equipment, net	<u>\$ 10,439</u>	<u>\$ 10,020</u>

Depreciation expense relating to the Foundation's property and equipment was \$2,795 and \$8,377 for the years ended June 30, 2019 and 2018, respectively, and was allocated between program and supporting services in the accompanying statements of activities.

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### 5. Intangibles

The following is a summary of the Foundation's intangible assets:

	Years Ended June 30,	
	2019	2018
Research files	\$ 15,177	\$ 15,177
Photographic files	6,000	6,000
Back issues collections	45,555	45,555
Long-lived assets held and used	66,732	66,732
Molly Ivins' literary rights	60,000	60,000
Total	\$ 126,732	\$ 126,732

### 6. Commitments and Contingencies

#### Commitments

The Foundation leases office facilities. For the office facilities, the Foundation recognizes expense on a straight-line basis and records the difference between the recognized rental expense and amounts payable under the lease as deferred rent. Rent expense under operating lease included in the statements of activities was \$26,400 and \$24,200 for the years ended June 30, 2019 and 2018, respectively.

Future minimum payments required under operating lease, by year and in aggregate, that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2019, are as follows:

Year ending June 30,	Operating Lease
2020	27,600
2021	27,600
2022	27,600
Total minimum lease payments	\$ 82,800

#### Litigation

In the normal course of business, the Foundation may become involved in various lawsuits and legal proceedings. While the ultimate results of these matters cannot be predicted with certainty, management does not expect them to have a material adverse effect on the financial position or results of operations of the Foundation.

# Texas Democracy Foundation

## Notes to the Financial Statements (continued)

### 7. Fair Value Disclosures

The Foundation measures certain assets at fair value on a recurring basis. The following table presents information about the Foundation's financial instruments measured at fair value on a recurring basis as of June 30, 2019 and 2018:

<u>Description</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Investments		
Money market funds	\$ 25,643	\$ 4,046
US Government bonds	65,978	64,581
Domestic & international bond funds	263,618	227,767
International real estate Domestic & international equities	2,655	1,742
199,371	192,405	
Total Investments	<u>\$ 557,265</u>	<u>\$ 490,541</u>

All investments were categorized as Level 1 at June 30, 2019 and 2018.

### 8. Donated Material

The Foundation receives various donated materials throughout the year which are used for fundraising events. In-kind contributions totaled \$0 and \$2,021 for the years ended June 30, 2019 and 2018, respectively, and are included in revenue, gains, and support in the accompanying statements of activities.

### 9. Retirement Plan

Effective July 1, 2013, the Foundation sponsors a SIMPLE IRA Plan (the "Plan"). The Plan is available to all full-time employees of the Foundation. Employer contributions totaled \$4,437 and \$5,556 for the years ended June 30, 2019 and 2018, respectively.