Report of Independent Auditors and
Financial Statements

# Code for America Labs, Inc.

December 31, 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

# CONTENTS

# REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Code for America Labs, Inc.

**Report on Financial Statements**

We have audited the accompanying financial statements of Code For America Labs, Inc., ("Code for America" or the "Organization") which comprise the statement of financial position as of December 31, 2014, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year 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 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 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 Organization'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 Organization'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 Code for America Labs, Inc. as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

As described in Note 8 to the financial statements, the Organization has restated its beginning unrestricted net assets at January 1, 2014, to correct the recording of revenue in the previous period. Our opinion is not modified with respect to this matter.

Moss Adams LLP

San Francisco, California
November 2, 2015

# FINANCIAL STATEMENTS

**CODE FOR AMERICA LABS, INC.**
**STATEMENT OF FINANCIAL POSITION**
**December 31, 2014**

| | | 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 6,154,863 |
| Investments | | 3,711 |
| Donation and program fees receivable | | 626,364 |
| Other receivable | | 7,993 |
| Prepaid expenses | | 78,710 |
| Furniture, equipment, and leasehold improvements, net | | 254,214 |
| Other assets | | 100,000 |
| Security deposit | | 57,825 |
| Total assets | $ | 7,283,680 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | $ | 266,850 |
| Funds held for others | | 21,450 |
| Deferred revenue | | 5,000 |
| Total liabilities | | 293,300 |
| Net assets | | |
| Unrestricted | | 5,764,380 |
| Temporarily restricted | | 1,226,000 |
| Total net assets | | 6,990,380 |
| Total liabilities and net assets | $ | 7,283,680 |

*See accompanying notes.*

| | 2014 | | |
|---|---|---|---|
| | **Unrestricted** | **Temporarily** | **Total** |
| **PUBLIC SUPPORT AND REVENUE** | | | |
| Donations | | | |
| Individuals | $ 178,436 | $ - | $ 178,436 |
| Business | 1,333,960 | - | 1,333,960 |
| Donations of marketable securities | 254,065 | - | 254,065 |
| Foundation grants | 4,761,144 | 1,825,000 | 6,586,144 |
| Program service fees | 2,018,265 | - | 2,018,265 |
| Donated services | 276,220 | - | 276,220 |
| Corporate sponsorship | 455,500 | - | 455,500 |
| Event sponsorship | 442,300 | - | 442,300 |
| Event admissions fees | 78,782 | - | 78,782 |
| Speaker fees | 32,400 | - | 32,400 |
| Contracted Services | 104,455 | - | 104,455 |
| Interest and gains from securities | 4,574 | - | 4,574 |
| Royalties | 3,522 | - | 3,522 |
| Net assets released from restrictions | 599,000 | (599,000) | - |
| Total public support and revenue | 10,542,623 | 1,226,000 | 11,768,623 |
| **EXPENSES** | | | |
| Program services | | | |
| CFA Fellows | 4,083,157 | - | 4,083,157 |
| Peer Network | 1,007,382 | - | 1,007,382 |
| CFA Summit | 739,712 | - | 739,712 |
| CFA Companies | 844,323 | - | 844,323 |
| CFA International | 656,506 | - | 656,506 |
| CFA Brigade | 890,857 | - | 890,857 |
| CFA Products | 433,834 | - | 433,834 |
| Total program services | 8,655,771 | - | 8,655,771 |
| **SUPPORTING SERVICES** | | | |
| Management and general | 717,311 | - | 717,311 |
| Fundraising | 520,992 | - | 520,992 |
| Total supporting services | 1,238,303 | - | 1,238,303 |
| Total expenses | 9,894,074 | - | 9,894,074 |
| Change in net assets | 648,549 | 1,226,000 | 1,874,549 |
| **NET ASSETS**, beginning of year, prior to restatement | 4,144,448 | - | 4,144,448 |
| Restatement (See Note 8) | 971,383 | - | 971,383 |
| **NET ASSETS**, beginning of year, as restated | 5,115,831 | - | 5,115,831 |
| **NET ASSETS**, end of period | $ 5,764,380 | $ 1,226,000 | $ 6,990,380 |

*See accompanying notes.*

# CODE FOR AMERICA LABS, INC.
## STATEMENT OF FUNCTIONAL EXPENSES
## Year Ended December 31, 2014

| | Program Services | | | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CFA Fellows | Peer Network | CFA Summit | Citizen Engagement | CFA Companies | CFA International | CFA Products Other | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total |
| Salaries & related expenses | $ 2,347,646 | $ 456,765 | $ - | $ 264,724 | $ 161,478 | $ 190,429 | $ - | $ 3,421,042 | $ 1,875,543 | $ 333,612 | $ 2,209,155 | $ 5,630,197 |
| Fellow expenses | 214,701 | 332 | 24 | 116 | 241 | - | 564 | 215,978 | 38,468 | 25 | 38,493 | 254,471 |
| Grants | - | - | - | 20,000 | 275,000 | 17,500 | - | 312,500 | - | - | - | 312,500 |
| Professional services | 72,139 | 188,815 | 52,179 | 20,635 | 35,028 | 44,125 | 393,463 | 806,384 | 277,161 | 100,236 | 377,397 | 1,183,781 |
| Travel and events | 156,494 | 27,727 | 535,113 | 191,738 | 45,371 | 174,209 | 28,196 | 1,158,848 | 107,090 | 71,303 | 178,393 | 1,337,241 |
| Donated services and professional | 31,675 | - | - | 35,675 | 208,870 | - | - | 276,220 | - | - | - | 276,220 |
| Marketing and advertising | 21,745 | 244 | 128,453 | 17,671 | 6,580 | 11,967 | 1,819 | 188,479 | 16,206 | 9,151 | 25,357 | 213,836 |
| Office and facilities | 37,755 | 4,577 | 21,145 | 8,292 | 2,585 | 1,734 | 8,125 | 84,213 | 446,303 | 5,886 | 452,189 | 536,402 |
| Other expense | 17,291 | 6,132 | 2,798 | 9,216 | 1,722 | 1,349 | 1,667 | 40,175 | 108,472 | 779 | 109,251 | 149,426 |
| G&A expense allocation | 1,183,711 | 322,790 | - | 322,790 | 107,448 | 215,193 | - | 2,151,932 | (2,151,932) | - | (2,151,932) | - |
| Total expenses | $ 4,083,157 | $ 1,007,382 | $ 739,712 | $ 890,857 | $ 844,323 | $ 656,506 | $ 433,834 | $ 8,655,771 | $ 717,311 | $ 520,992 | $ 1,238,303 | $ 9,894,074 |

*See accompanying notes.*

| | |
|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | |
| Change in net assets | $ 1,874,549 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | |
| Depreciation and amortization | 80,298 |
| Realized loss on marketable securities | 2,455 |
| Net change in assets and liabilities | |
| Donation and program fees receivable | 100,274 |
| Other receivable | (7,993) |
| Prepaid expense | (43,201) |
| Accounts payable and accrued liabilities | 145,292 |
| Funds held for others | 21,450 |
| Deferred revenue | (20,000) |
| Deferred rent liability | (44,716) |
| Net cash from operating activities | 2,108,408 |
| **CASH FLOW (USED IN) INVESTING ACTIVITIES** | |
| Purchases of marketable securities | (6,166) |
| Other assets | (100,000) |
| Purchase of furniture, equipment, and leasehold improvements | (87,979) |
| Net cash (used in) investing activities | (194,145) |
| Change in cash and cash equivalents | 1,914,263 |
| **CASH AND CASH EQUIVALENTS**, beginning of year | 4,240,600 |
| **CASH AND CASH EQUIVALENTS**, end of year | $ 6,154,863 |

*See accompanying notes.*

## NOTE 1 – ORGANIZATION

Code For America Labs, Inc. ("Code for America" or the "Organization") is a not-for-profit corporation that was formed in California in 2009. Code for America Labs, Inc. helps governments become more transparent, connected, and efficient by connecting web developers with people who deliver city services. Through that process, Code for America Labs, Inc. is growing a group of fellows and technologists that have enlisted in helping local government to become more transparent, known as the "Corp."

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation** – 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 ("GAAP"). Accordingly, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted net assets** – Net assets that are not subject to donor-imposed restrictions.

**Temporarily restricted net assets** – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a donor-imposed restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently restricted net assets** – Net assets that are subject to donor-imposed restrictions that specify assets donated be invested to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the Organization may determine the income's availability to the Organization's operations. The Organization had no permanently restricted net assets as of December 31, 2014.

**Cash and cash equivalents** – Cash and cash equivalents consist of balances on hand and on deposit in banks and other financial institutions and short-term investments. Cash on deposit in banks may be in excess of Federal Deposit Insurance Corporation insurance limits. The Organization seeks to control the risk of loss by maintaining deposits with only high quality financial institutions. The Organization considers all highly liquid investments with original maturities of three months or less on the date of purchase to be cash equivalents.

**Investments** – Investments are stated at fair value based on quoted market prices, and the net unrealized appreciation or depreciation on investments is included in the change in net assets in the accompanying statement of activities. Interest and dividend income is accrued when earned.

These investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect account balances and the amounts reported in the statement of financial position.

**Fair value measurements** – The Organization carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

**Level 1** – Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

**Level 2** – Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

**Level 3** – Unobservable inputs for the asset or liability that are not corroborated by market data.

**Donation and program fees receivable** – Donation and program fees receivable are stated at the amount management expects to collect from outstanding balances after reserves for discounts, bad debts, and allowances, taking into account past experience, contracts, history and other organizations' ability to meet their obligations. Management provides for probable uncollectible amounts through a charge to expense and an increase to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction of accounts receivable. Management has deemed all donations and program fees receivable collectible at December 31, 2014.

**Furniture, equipment, and leasehold improvements** – Furniture, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. The Organization capitalizes all fixed assets above $500. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method is followed for all assets for financial reporting.

The estimated lives used in determining straight-line depreciation and amortization are:

| | |
|---|---|
| Furniture | 7 years |
| Equipment | 3 to 5 years |
| Leasehold improvements | 10 Years |

**Other assets** – Other assets represents a future equity purchase of shares in a closely held stock in the amount of $100,000. The Organization executed a Simple Agreement for Future Equity in which the Organization has rights to preferred shares in a closely held company. Other assets are evaluated for impairment based upon the fair value of the rights as compared to the cost. Impairment is determined based on predominant risk characteristics, such as valuation of the closely held company, internal and external factors. The Organization performs an annual impairment review of the asset. No impairment losses were recorded in 2014.

**Income taxes** – The Organization is considered a public charity and is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is exempt from state tax under State of California Revenue and Taxation Code Section 23701d, whereby only unrelated business income is subject to federal and state income tax. Since all the Organization's income is related to its exempt purpose, no provision for income taxes has been made in the accompanying financial statements. The Organization has no unrecognized tax benefits or uncertain tax positions as of December 31, 2014. With few exceptions, the Organization is no longer subject to United States Federal or state/local income tax examinations by tax authorities for fiscal years before 2011.

**Revenue recognition:**

- Donations are recognized when the donor makes a documented promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Donated marketable securities are liquidated upon receipt.

- Foundation grants that are considered to be contributions are recognized when the grant agreements are signed. The revenue is reported as unrestricted support unless the grantor has restricted the use to a specific purpose or time period. Foundation grants with payment terms in excess of one year are subject to discounting. There were no such grants at December 31, 2014.

- Program service fees relate to exchange transactions and are recognized as unrestricted revenue as milestones per the agreement have been met by the Organization.

- Donated services are recognized as revenue and a corresponding expense at their estimated value at date of receipt, in accordance with accounting principles generally accepted in the United States of America, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

- Corporate sponsorship, event sponsorship, and event admissions fees are recognized when the events or programs occur.

**Allocation of functional expenses** – Expenses which apply to more than one functional category have been allocated to program, management and general, and fundraising based on time spent on these functions by specific employees as estimated by senior management. The remaining costs are charged directly to the appropriate functional category.

**Use of estimates** – In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates include the fair value determination of in-kind contributions, fair value determination of investments, useful lives assigned to fixed assets and functional expense allocation. Actual results could differ from these estimates.

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

The Organization has evaluated subsequent events through November 2, 2015, which is the date the financial statements were available to be issued.

## NOTE 3 – INVESTMENTS AND FAIR VALUE

On November 20, 2014, Code for America assigned its trademark rights to a closely held company (the "Company") and executed an Office Services Agreement with the Company in exchange for 18,567 common shares as of the date of execution.

The following table presents the assets measured at fair value on the accompanying statement of financial position as of December 31, 2014, according to fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Closely held stock | $ - | $ - | $ 3,711 | $ 3,711 |
| Total | $ - | $ - | $ 3,711 | $ 3,711 |

**Valuation process** – Fair value associated with this investment has been based on information provided by the invested company. The Chief Financial Officer and Director of Operations determines fair value measurement policies and procedures for assets and liabilities under the supervision of the Board of Directors and the Director of Operations. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies, and are consistent with market, income, and cost approaches. Unobservable inputs used in the fair value measurements are evaluated, as necessary, based on current market conditions, reporting from invested company, and other third party information, including contract terms.

Level 3 investment includes closely held stock which is illiquid and there may not be a secondary market for sale of the investment. Valuation technique and inputs for the closely held stock is described below.

**Closely held stock** – The Organization's closely held stock seeks capital appreciation and is dependent on the success of the Company's business plan. Distributions from the Organization's investment are dependent on the secondary market and the demand for such closely held stock. For this instrument, determination of fair value requires subjective assessment and varying degrees of judgment depending on liquidity, concentration, pricing assumptions, the current economic and competitive environment, and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The following is a roll-forward of the amounts in the statement of financial position for the year ended December 31, 2014, (including the change in fair value), for the Level 3 amounts are in the table below:

| | | |
|---|---|---|
| Beginning of year, January 1, 2014 | $ | - |
| Purchases | | 3,711 |
| End of year, December 31, 2014 | $ | 3,711 |

From time to time investments will be transferred between Level 3 and Level 2 based on the characteristics of the investments. The Organization's policy is to recognize transfers in and transfers out at the beginning of the period in which the event or change in circumstances occurred.

While the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such assets existed, or had such assets been liquidated, and these differences could be material to the financial statements.

## NOTE 4 – FURNITURE, EQUIPMENT, AND LEASHOLD IMPROVEMENTS

Furniture, equipment, and leasehold improvements at December 31, 2014, consisted of:

| | | |
|---|---|---|
| Furniture | $ | 151,516 |
| Equipment | | 244,943 |
| Leasehold improvements | | 37,704 |
| | | 434,163 |
| Accumulated depreciation and amortization | | (179,949) |
| | $ | 254,214 |

Current period depreciation and amortization expense totaled $80,298 for the year ended December 31, 2014.

## NOTE 5 – CONCENTRATIONS

For the year ended December 31, 2014, the Organization received approximately 54% of its total public support and revenue from three foundation grants. Additionally, the Organization received approximately 47% of its total events and sponsorship fees from two different organizations.

## NOTE 6 – IN-KIND CONTRIBUTIONS

The Organization entered into an agreement with two legal firms to provide services over general organization and intellectual property legal advice. The agreement allows for either party to terminate the relationship at any time with or without consent of the other party. The fair value of the donated legal services for December 31, 2014, was approximately $35,000. The Organization also receives donated licenses, cloud credits, and other computer supplies from various third parties. The fair value of other services received for December 31, 2014, was approximately $241,000.

## NOTE 7 – OPERATING LEASES

The Organization leases office space under a non-cancelable operating lease expiring December 31, 2018. The total rental expense for the year ended December 31, 2014, for this operating lease was approximately $341,000.

The Organization subleased a portion of its building back to the building's owners. Sublease income was $115,103 for December 31, 2014. Sublease income is included in lease expense on the accompany statement of activities and changes in net assets.

Following is a schedule of future minimum lease payments under operating leases as of December 31, 2014:

| Years Ending December 31, | | |
|---|---|---|
| 2015 | $ | 577,230 |
| 2016 | | 594,547 |
| 2017 | | 612,387 |
| 2018 | | 630,697 |
| | $ | 2,414,861 |

**NOTE 8 – PRIOR PERIOD ADJUSTMENT**

In previous periods reported, the Organization had been deferring program service fees and matching funds. Program service fees related to city fellowship contracts with the understanding that the income had not been earned based on specific milestones. It was subsequently determined that the criteria for revenue recognition had been met at December 31, 2013. Matching funds previously were accounted for as an exchange transaction. However, subsequent discussions with the donors clarified that these funds are unrestricted contributions. At December 31, 2013, revenue recognition had been met for both program service fees and matching funds, which resulted in an additional $971,383 of revenue which should have been recognized. The impact to the previously issued statement of activities and changes in net assets for the six-month period ended December 31, 2013, would be an increase in program service fees, corporate sponsorship revenue, and donations by business in the amounts of approximately $646,600, $50,000, and $274,750, respectively, a total increase in the changes in net assets of approximately $971,350 for the six-month period. This restatement resulted in an increase in beginning unrestricted net assets at January 1, 2014, of approximately $971,350 and is reflected on the accompanying statement of activities and changes in net assets.