



THE SUNLIGHT FOUNDATION

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2016 and 2015

THE SUNLIGHT FOUNDATION
Financial Statements

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Basic Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses - 2016	5
Statements of Functional Expenses - 2015	6
Statements of Cash Flows	7
Notes to Financial Statements	8-14



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INDEPENDENT AUDITORS' REPORT

**Board of Directors
The Sunlight Foundation
Washington, DC**

We have audited the accompanying financial statements of The Sunlight Foundation, a nonprofit organization, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on 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 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 auditors' 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.

THE SUNLIGHT FOUNDATION
Independent Auditors' Report (Continued)
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Sunlight Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 3 to the financial statements, the Organization's significant operating losses raise substantial doubt about its ability to continue as a going concern. Management's plans regarding the losses also are described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

DeLeon & Stang

DeLeon & Stang, CPAs
Gaithersburg, Maryland
October 2, 2017

THE SUNLIGHT FOUNDATION
Statements of Financial Position
December 31, 2016 and 2015

ASSETS

	2016	2015
<u>Assets:</u>		
Cash and equivalents	\$ 951,669	\$ 2,692,461
Grants and pledges receivable, net of discount	759,884	2,414,542
Prepaid expenses	46,253	52,289
Property and equipment, net of accumulated depreciation	44,183	85,937
Other intangibles, net of accumulated amortization	-	50,000
Security deposit	27,155	27,155
	\$ 1,829,144	\$ 5,322,384

LIABILITIES AND NET ASSETS

<u>Liabilities:</u>		
Accounts payable and accrued expenses	\$ 79,583	\$ 99,068
Deferred occupancy	5,725	32,225
	85,308	131,293
<u>Net Assets:</u>		
Unrestricted	983,952	2,042,518
Temporarily restricted	759,884	3,148,573
	1,743,836	5,191,091
	\$ 1,829,144	\$ 5,322,384

THE SUNLIGHT FOUNDATION
Statements of Activities
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenue and Support:</u>						
Contributions and grants	\$ 358,856	\$ -	\$ 358,856	\$ 918,489	\$ 4,022,370	\$ 4,940,859
Interest income	2,086	-	2,086	1,925	-	1,925
Other income	16,704	-	16,704	39,018	-	39,018
Loss on disposal of intangible asset	(50,000)	-	(50,000)	-	-	-
Net assets released from restrictions	2,388,689	(2,388,689)	-	3,212,499	(3,212,499)	-
Total revenue and support	2,716,335	(2,388,689)	327,646	4,171,931	809,871	4,981,802
<u>Expenses:</u>						
Program Services	3,054,164	-	3,054,164	3,479,898	-	3,479,898
Supporting Services	720,737	-	720,737	1,029,773	-	1,029,773
Total expenses	3,774,901	-	3,774,901	4,509,671	-	4,509,671
Change in net assets	(1,058,566)	(2,388,689)	(3,447,255)	(337,740)	809,871	472,131
Net assets, beginning of year	2,042,518	3,148,573	5,191,091	2,380,258	2,338,702	4,718,960
Net assets, end of year	<u>\$ 983,952</u>	<u>\$ 759,884</u>	<u>\$ 1,743,836</u>	<u>\$ 2,042,518</u>	<u>\$ 3,148,573</u>	<u>\$ 5,191,091</u>

See Accompanying Notes to Financial Statements

THE SUNLIGHT FOUNDATION
Statements of Functional Expenses
For the Years Ended December 31, 2016 and 2015

2016

	Program Services			Supporting Services			Total
	Sunlight Labs	Other Programs	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Salaries	\$ 230,974	\$ 1,067,340	\$ 1,298,314	\$ 215,616	\$ 172,532	\$ 388,148	\$ 1,686,462
Bad debt expense	-	747,103	747,103	-	-	-	747,103
Occupancy	49,702	229,674	279,376	46,397	37,126	83,523	362,899
Payroll taxes and benefits	46,650	215,573	262,223	43,548	34,847	78,395	340,618
Travel	7,705	118,666	126,371	5,489	1,368	6,858	133,229
Information technology	110,088	-	110,088	-	-	-	110,088
Consultants	13,247	77,735	90,982	2,775	-	2,775	93,757
Advertising	9,435	43,599	53,034	8,807	7,048	15,855	68,889
Depreciation and amortization	-	-	-	52,543	-	52,543	52,543
Accounting and audit	-	-	-	37,600	-	37,600	37,600
Meetings	589	23,029	23,618	10,408	2,070	12,478	36,096
Telephone and internet	3,685	17,027	20,712	3,439	2,752	6,191	26,903
Dues and subscriptions	3,545	16,382	19,927	3,309	2,648	5,958	25,885
Gifts and donations	2,054	9,493	11,548	1,918	1,535	3,452	15,000
Insurance	-	-	-	13,536	-	13,536	13,536
Web development	825	3,814	4,639	770	617	1,387	6,026
Legal counsel	-	-	-	5,351	-	5,351	5,351
Office supplies	477	2,205	2,682	445	356	801	3,483
Licenses and Permits	-	-	-	3,301	-	3,301	3,301
Small equipment purchases	374	1,730	2,105	349	280	629	2,734
Bank fees	-	-	-	1,191	-	1,191	1,191
Miscellaneous	-	1,158	1,158	-	-	-	1,158
Postage and delivery	-	-	-	726	-	726	726
Maintenance and repairs	24	259	283	22	18	40	323
Total	\$ 479,375	\$ 2,574,789	\$ 3,054,164	\$ 457,541	\$ 263,197	\$ 720,737	\$ 3,774,901

(Continued)

See Accompanying Notes to Financial Statements

THE SUNLIGHT FOUNDATION
Statements of Functional Expenses (Continued)
For the Years Ended December 31, 2016 and 2015

	2015						
	Program Services			Supporting Services			Total
	Sunlight Labs	Other Programs	Total Program Services	General and Administrative	Fundraising	Supporting Services	
Salaries	\$ 1,034,309	\$ 1,213,817	\$ 2,248,126	\$ 200,959	\$ 318,115	\$ 519,074	\$ 2,767,200
Payroll taxes and benefits	202,841	238,044	440,885	39,411	62,386	101,797	542,682
Occupancy	138,552	162,598	301,150	25,920	43,614	69,534	370,684
Depreciation and amortization	-	-	-	203,563	-	203,563	203,563
Travel	6,747	121,562	128,309	5,489	1,368	6,857	135,166
Information technology	130,670	-	130,670	-	-	-	130,670
Consultants	17,445	104,440	121,885	2,775	-	2,775	124,660
Meetings	590	45,992	46,582	10,408	2,070	12,478	59,060
Accounting and audit	-	-	-	54,612	-	54,612	54,612
Dues and subscriptions	10,842	12,724	23,566	2,106	3,335	5,441	29,007
Telephone and internet	10,490	12,310	22,800	2,038	3,226	5,264	28,064
Insurance	-	-	-	26,328	-	26,328	26,328
Legal counsel	-	-	-	10,724	-	10,724	10,724
Office supplies	2,798	3,284	6,082	544	861	1,405	7,487
Web development	2,754	3,233	5,987	535	847	1,382	7,369
Bank fees	-	-	-	2,960	-	2,960	2,960
Licenses and Permits	-	-	-	2,007	-	2,007	2,007
Advertising	-	-	-	1,795	-	1,795	1,795
Printing	606	712	1,318	118	186	304	1,622
Gifts and donations	421	493	914	82	129	211	1,125
Small equipment purchases	409	480	889	80	126	206	1,095
Maintenance and repairs	338	397	735	66	104	170	905
Postage and delivery	-	-	-	886	-	886	886
Total	\$ 1,559,812	\$ 1,920,086	\$ 3,479,898	\$ 593,406	\$ 436,367	\$ 1,029,773	\$ 4,509,671

See Accompanying Notes to Financial Statements

THE SUNLIGHT FOUNDATION
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (3,447,255)	\$ 472,131
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Accretion of discount on pledges receivable	-	(2,897)
Bad debt expense	747,103	-
Loss on disposal of intangible asset	50,000	-
Depreciation and amortization	52,543	203,563
Decrease (Increase) in operating assets:		
Grants and pledges receivable	907,555	(427,084)
Prepaid expenses	6,036	14,699
Decrease in operating liabilities:		
Accounts payable and accrued expenses	(19,485)	(962)
Deferred revenues	-	(11,865)
Deferred occupancy	(26,500)	(13,325)
Net cash (used in) provided by operating activities	(1,730,003)	234,260
<u>Cash Flows From Investing Activities:</u>		
Purchases of property and equipment	(10,789)	(2,789)
Net cash used in investing activities	(10,789)	(2,789)
Net (decrease) increase in cash and cash equivalents	(1,740,792)	231,471
Cash and equivalents at beginning of year	2,692,461	2,460,990
Cash and equivalents at end of year	\$ 951,669	\$ 2,692,461

THE SUNLIGHT FOUNDATION
Notes to Financial Statements
December 31, 2016 and 2015

NOTE 1- ORGANIZATION AND OPERATIONS

The Sunlight Foundation (the Organization) is a nonprofit organization incorporated under the laws of the District of Columbia. The Organization supports, develops, and deploys new internet technologies to make information about Congress and the federal government more accessible to the American people. Through its projects and grant making, the Organization serves as a catalyst to create greater political transparency and to foster more openness and accountability in the government. The Organization has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has ruled the Organization to be a public foundation.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The financial statements are presented in accordance with Accounting Standards Codification Statements of Financial Topic 958, *Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

THE SUNLIGHT FOUNDATION
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

- *Unrestricted*: Net assets that are not subject to donor-imposed restrictions.
- *Temporarily Restricted*: Funds subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.
- *Permanently Restricted*: Net assets subject to donor-imposed restrictions that are maintained permanently by the Organization.

There were no permanently restricted net assets at December 31, 2016 and 2015.

Cash and Cash Equivalents

The Organization considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Grants and Pledges Receivable

Grants and pledges receivable consist of contributions promised and not received as of the end of the year. Grants and pledges receivable due in one year or less are stated at the amount management expects to collect on the outstanding balance. Grants and pledges receivable that will be paid in more than one year are measured in the aggregate using present value techniques that consider the Organization's estimated interest earnings of cash deposits. All outstanding grants and pledges receivable at December 31, 2016 are due in one year or less. Management provides for probable uncollectible amounts through an increase in bad debt expense and an increase in allowance for doubtful accounts 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 decrease in the allowance for doubtful accounts and a decrease in pledges receivable. During 2016, the Organization wrote off \$747,103 as bad debt expense. No allowance for doubtful accounts was required at December 31, 2016 and 2015.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment are carried at cost. Donated property and equipment are recorded at fair value at the date of donation.

THE SUNLIGHT FOUNDATION
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Depreciation is computed using the straight-line method, over useful lives of:

	<u>Years</u>
Leasehold improvements	4-7
Computer equipment and software	3-5
Furniture and fixtures	5-7

The cost of maintenance is expensed as incurred.

Other Intangibles

Other intangibles consist of website and database development. Other intangibles are amortized on a straight-line basis over their estimated useful lives (generally three to five years). During 2016, management disposed of the website, resulting in a \$50,000 loss which is included in the accompanying statements of activities.

Deferred Revenue

Fees received in advance are recorded as deferred revenue and are recognized as income during the period in which the related event takes place.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, as applicable. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when restrictions expire by passage of time or the fulfillment of the stipulated purpose.

Donated Assets and Services

Donated assets are recorded at their fair market value at the date of the gift. Donated services are recorded only when a clearly measurable basis exists.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

THE SUNLIGHT FOUNDATION
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Organization expenses the costs of advertising as they are incurred.

Subsequent Events

The financial statements have been evaluated by management for subsequent events requiring disclosure through October 2, 2017, the date the financial statements were available to be issued.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable income tax regulations of the District of Columbia. No provision for income taxes has been established, as the Organization has no unrelated business activity. The Organization has determined that there are no uncertain tax positions which require accrual or disclosure.

The Organization's tax filings are subject to audit by various taxing authorities, generally for three years after filing, hence the Organization's tax returns for the years 2013 and onward are open to examination.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 3- GOING CONCERN

The Sunlight Foundation's financial statements have been prepared on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

During 2016, the Organization experienced a net deficiency of revenues over expenses of \$3,447,255. This resulted in a reduction in net assets from \$5,191,091 at December 31, 2015 to \$1,1743,836 at December 31, 2016. In addition, the Organization is anticipating a substantial deficit in 2017. Despite this, management is committed to maintaining the viability of the Organization. Management and staff have discussed the financial issues facing the Organization and are taking the following actions:

THE SUNLIGHT FOUNDATION
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

NOTE 3- GOING CONCERN (Continued)

- During 2016, total payroll was \$1,686,462 with 30 employees. The following select expense accounts for 2016 totaled: retirement, \$54,669, rent and utilities, \$362,899, and health care, \$35,991. As of September 11, 2017, the Organization has significantly reduced these expenses. By reducing the total full-time staff to 8, payroll has reduced to \$467,182, retirement to \$17,201, and health care to \$35,991. The Organization moved to new offices in February 2017, reducing rent and utilities to \$167,828.
- The Organization has reduced their budget in 2017 to \$1,400,000 from \$3,900,000 in 2016.
- The Organization has also recently secured new funding from donors totaling \$160,000, and has a pending proposal with a donor for a 3 year, \$8.6 Million grant..

The ability of the Organization to continue as a going concern is dependent upon the success of these actions. There can be no assurance that the Organization will be successful in accomplishing these objectives. The financial statements do not include any adjustments that might be necessary should the Organization be unable to continue as a going concern.

NOTE 4- PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31,

	<u>2016</u>	<u>2015</u>
Cost:		
Leasehold improvements	\$ 164,987	\$ 164,987
Computer equipment and software	156,755	145,966
Furniture and fixtures	52,158	52,158
	<u>373,900</u>	<u>363,111</u>
Less:		
Accumulated depreciation and amortization	(329,717)	(277,174)
	<u>\$ 44,183</u>	<u>\$ 85,937</u>

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2016 and 2015 was \$52,543 and \$53,563, respectively.

THE SUNLIGHT FOUNDATION
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

NOTE 5- OTHER INTANGIBLES

Other intangibles consists of the following at December 31,

	<u>2016</u>	<u>2015</u>
Cost:		
Website development	\$ 38,000	\$ 488,000
Database development	96,307	96,307
	<u>134,307</u>	<u>584,307</u>
Less:		
Accumulated amortization	(134,307)	(534,307)
	<u>\$ -</u>	<u>\$ 50,000</u>

Amortization expense related to other intangibles for the years ended December 31, 2015 was \$150,000. All remaining intangible assets were disposed during 2016.

NOTE 6- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31,

	<u>2016</u>	<u>2015</u>
<u>Temporarily restricted net assets:</u>		
Time restricted	\$ 6,000	\$ 154,086
Purpose and time restricted	753,884	2,260,456
Purpose restricted	-	734,031
	<u>\$ 759,884</u>	<u>\$ 3,148,573</u>

NOTE 7- OPERATING LEASE

In July 2009, the Organization entered into a lease agreement for office space located in Washington D.C. The lease requires monthly installments \$27,155, which are subject to a 2.5% annual escalation. Occupancy expense is recognized on a straight-line basis. The lease expires February 2017. The Organization is responsible for its pro-rata share of real estate taxes and operating expenses. Total occupancy expense for the years ended December 31, 2016 and 2015 was \$362,899 and \$370,684, respectively. Total deferred occupancy for the years ended December 31, 2016 and 2015 was \$5,725 and \$32,225, respectively.

THE SUNLIGHT FOUNDATION
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

NOTE 7- OPERATING LEASE (Continued)

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
2017	<u>\$ 64,559</u>

In February 2017, the Organization entered into a lease agreement for office space at a new location in Washington D.C. The lease is a month-to-month lease, requiring monthly installments of \$10,500.

NOTE 8- RETIREMENT PLAN

The Organization maintains a 403(b) retirement plan (the plan). All employees who work twenty hours or more per week are eligible to participate and are fully vested in the plan upon entry. Participation in the plan begins immediately upon hire. Employees may contribute to the plan up to the maximum amount allowed by the Internal Revenue Code. The Organization makes discretionary employer contributions to the plan equal to 3% of each participant's annual wages. For the years ended December 31, 2016 and 2015, the Organization made contributions to the plan of \$54,669 and \$85,180, respectively.

NOTE 9- CONCENTRATIONS OF RISK AND RELATED PARTY TRANSACTIONS

The Organization maintains cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016, the Organization's uninsured cash balance was \$2,372. At December 31, 2015, the Organization's uninsured cash balance was \$1,590,924.

For the year ended December 31, 2016, annual contributions from five (5) donors in the aggregate amount of \$277,096 represented approximately 75% of total revenue and support. For the year ended December 31, 2015, annual contributions from four donors in the aggregate amount of \$3,430,000 represented approximately 69% of total revenue and support.

At December 31, 2016, approximately 99% of grants and pledges receivable were due from one donor. At December 31, 2015, approximately 93% of grants and pledges receivable were due from three (3) donors.

For the year ended December 31, 2016, annual contributions from a single board member totaled \$50,000, which represents approximately 13% of total revenue and support. For the year ended December 31, 2015, annual contributions from a two board members totaled \$475,000, which represents approximately 10% of total revenue and support.