

**Pro Publica, Inc.**

Financial Statements

December 31, 2017



## Independent Auditors' Report

### Board of Directors Pro Publica, Inc.

We have audited the accompanying financial statements of Pro Publica, Inc. (the "Organization") which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, 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.

### *Auditors' 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 of 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.

**Board of Directors**

**Pro Publica, Inc.**

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pro Publica, Inc. as of December 31, 2017, 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.

***Report on Summarized Comparative Information***

We have previously audited the Organization's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

May 4, 2018

**Pro Publica, Inc.**

Statement of Financial Position  
December 31, 2017  
(with comparative amounts at December 31, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,279,619	\$ 8,269,733
Investments	13,132,051	107,549
Contributions receivable, net	18,687,901	3,532,817
Prepaid expenses and other assets	294,136	130,946
Property and equipment, net	<u>677,235</u>	<u>388,481</u>
	<u>\$ 38,070,942</u>	<u>\$12,429,526</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 372,471	\$ 110,074
Deferred rent	<u>373,691</u>	<u>274,185</u>
Total Liabilities	<u>746,162</u>	<u>384,259</u>
Net Assets		
Unrestricted	14,828,565	6,555,625
Temporarily restricted	<u>22,496,215</u>	<u>5,489,642</u>
Total Net Assets	<u>37,324,780</u>	<u>12,045,267</u>
	<u>\$ 38,070,942</u>	<u>\$12,429,526</u>

See notes to financial statements

**Pro Publica, Inc.**

Statement of Activities  
Year Ended December 31, 2017  
(with summarized totals for the year ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>SUPPORT AND REVENUE</b>				
Foundation grants	\$ 8,832,837	\$ 27,250,335	\$ 36,083,172	\$ 9,896,025
Individual contributions	6,971,175	-	6,971,175	3,868,128
Interest and other income	498,443	-	498,443	562,904
Net assets released from restrictions	<u>10,243,762</u>	<u>(10,243,762)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>26,546,217</u>	<u>17,006,573</u>	<u>43,552,790</u>	<u>14,327,057</u>
<b>EXPENSES</b>				
Program	15,389,850	-	15,389,850	11,393,913
Management and general	1,870,724	-	1,870,724	1,575,967
Fundraising	<u>1,012,703</u>	<u>-</u>	<u>1,012,703</u>	<u>578,537</u>
Total Expenses	<u>18,273,277</u>	<u>-</u>	<u>18,273,277</u>	<u>13,548,417</u>
Change in Net Assets	8,272,940	17,006,573	25,279,513	778,640
<b>NET ASSETS</b>				
Beginning of year	<u>6,555,625</u>	<u>5,489,642</u>	<u>12,045,267</u>	<u>11,266,627</u>
End of year	<u>\$ 14,828,565</u>	<u>\$ 22,496,215</u>	<u>\$ 37,324,780</u>	<u>\$ 12,045,267</u>

See notes to financial statements

**Pro Publica, Inc.**

**Statement of Functional Expenses**  
**Year Ended December 31, 2017**  
(with summarized totals for the year ended December 31, 2016)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2017 Total</u>	<u>2016 Total</u>
Staffing	\$ 11,246,845	\$ 1,516,297	\$ 624,672	\$ 13,387,814	\$ 10,105,178
Professional development	61,686	5,052	2,004	68,742	33,719
Occupancy	1,023,582	104,398	47,224	1,175,204	1,111,835
Insurance	134,227	19,976	4,074	158,277	103,110
Freelance and consulting fees	402,735	-	4,723	407,458	355,728
Accounting fees	26,860	3,160	1,580	31,600	31,843
Legal fees	7,957	2,186	13,492	23,635	41,953
Recruitment	73,757	220	12,412	86,389	8,613
Travel	649,341	5,015	26,746	681,102	562,941
Website development and design	465,257	27,370	54,736	547,363	357,869
Video/Social Media	163,744	19,265	9,632	192,641	14,434
Advertising	-	51,645	939	52,584	28,585
Software and tech support	351,693	41,375	20,688	413,756	110,259
New product development	28,925	3,403	1,702	34,030	-
Public records copies and subscriptions	255,053	-	-	255,053	177,792
Telecommunications	119,970	12,168	5,959	138,097	89,453
Repairs and maintenance	64,742	7,535	3,629	75,906	62,266
Printing and postage	7,286	1,157	13,511	21,954	4,262
Meeting expense	69,259	9,540	3,133	81,932	65,305
Supplies	44,618	3,420	1,556	49,594	27,574
Equipment lease	11,055	1,301	650	13,006	14,566
Depreciation	177,745	19,760	-	197,505	146,077
Unrelated business income tax expense	-	9,000	-	9,000	3,500
Credit card and bank fees	3,513	7,481	159,641	170,635	91,555
	<u>\$ 15,389,850</u>	<u>\$ 1,870,724</u>	<u>\$1,012,703</u>	<u>\$ 18,273,277</u>	<u>\$ 13,548,417</u>

See notes to financial statements

**Pro Publica, Inc.**

Statement of Cash Flows  
Year Ended December 31, 2017  
(with comparative amounts for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$25,279,513	\$ 778,640
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	197,505	146,077
Loss on disposal of assets	901	-
Deferred rent	99,506	125,482
Donated stock	(191,155)	(179,827)
Realized and unrealized loss on investments	4,856	709
Changes in operating assets and liabilities		
Contributions receivable	(15,155,084)	2,289,119
Prepaid expenses and other assets	(163,190)	45,819
Accounts payable and accrued expenses	<u>262,397</u>	<u>(26,660)</u>
Net Cash from Operating Activities	<u>10,335,249</u>	<u>3,179,359</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(487,160)	(125,687)
Purchase of investments	(13,094,324)	-
Proceeds from sale of investments	<u>256,121</u>	<u>74,091</u>
Net Cash from Investing Activities	<u>(13,325,363)</u>	<u>(51,596)</u>
Net Change in Cash and Cash Equivalents	(2,990,114)	3,127,763
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>8,269,733</u>	<u>5,141,970</u>
End of year	<u>\$ 5,279,619</u>	<u>\$ 8,269,733</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Unrelated business income taxes paid	\$ 9,000	\$ 3,500

See notes to financial statements

## **Pro Publica, Inc.**

Notes to Financial Statements  
December 31, 2017

### **1. Organization**

Pro Publica, Inc. (the “Organization”) is an independent newsroom that produces investigative journalism in the public interest. The Organization’s work focuses exclusively on truly important stories, stories with “moral force.” The Organization does this by producing journalism that shines a light on exploitation of the weak by the strong and on the failures of those with power to vindicate the trust placed in them.

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, and has been classified as an organization that is not a private foundation.

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

#### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) which 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

#### ***Fair Value Measurements***

The Organization follows US GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

#### ***Investments and Investment Income Recognition***

Investments are carried at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest and dividends are recorded when earned.



## **Pro Publica, Inc.**

Notes to Financial Statements  
December 31, 2017

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

#### ***Property and Equipment***

Property and equipment are stated at cost and depreciated on the straight-line basis over the estimated useful lives of the assets ranging between 3 to 7 years. Leasehold improvements are depreciated over the lesser of the life of the asset or the term of the lease using the straight-line method. The Organization capitalizes all expenditures of property and equipment in excess of \$1,000.

#### ***Net Asset Presentation***

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors for investment in perpetuity. There were no permanently restricted assets as of December 31, 2017 and 2016.

#### ***Contributions and Grants***

Contributions and grants are recorded when unconditional promises to give are made. Nonmonetary contributions (stocks, bonds, etc.) are recorded at estimated fair value at date of receipt. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional contributions are recognized when the conditions on which they depend are substantially met. Unconditional contributions due in the next year are recorded at their estimated fair value. Unconditional contributions due in subsequent years are reported at the present value of their net realizable value, using risk-adjusted rates applicable to the years in which the promises are received. The change in the present value discount from year to year is reported as contribution revenue in the statement of activities.

#### ***Advertising Costs***

The Organization expenses the costs of advertising as incurred.

#### ***Deferred Rent***

The Organization has entered into an operating lease agreement which contains a provision for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is reflected as deferred rent, in the accompanying statement of financial position.

#### ***Accounting for Uncertainty in Income Taxes***

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2014.

## **Pro Publica, Inc.**

Notes to Financial Statements  
December 31, 2017

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

#### ***Prior Year Summarized Information***

The financial statements include certain prior year summarized comparative information in total only, which does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for 2016, from which the summarized information was derived.

#### ***Reclassifications***

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Net assets and the change in net assets are unchanged due to these reclassifications.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is May 4, 2018.

### **3. Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash and cash equivalents, investments and contributions receivable. The Organization maintains its cash accounts with major financial institutions which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant risk. Investments primarily consist of a money market mutual fund and is overseen by the board. Contributions receivable are from limited sources, subjecting the Organization to a concentration of credit risk.

### **4. Contributions Receivable**

Unconditional pledges are included in the financial statements as contributions receivable and revenue, discounted to the present value of expected future cash flows. Contributions to be received after one year are discounted at an appropriate interest rate (approximately 3.00% at December 31, 2017 and 2016) commensurate with the risk involved. Management considers all amounts to be fully collectible and accordingly, no allowance for doubtful accounts has been provided.

**Pro Publica, Inc.**

Notes to Financial Statements  
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**4. Contributions Receivable (continued)**

Management expects contributions receivable to be realized in the following periods at December 31:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 9,917,925	\$ 2,300,711
Due within two to four years	9,248,200	1,294,667
Discount to present value	<u>(478,224)</u>	<u>(62,561)</u>
	<u>\$ 18,687,901</u>	<u>\$ 3,532,817</u>

**5. Investments**

The following are major categories of investments measured at fair value on a recurring basis at December 31:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Equity securities	\$ 14,765	\$ 50,656
Money market mutual fund	13,043,446	-
Exchange traded funds	<u>-</u>	<u>30,227</u>
Total Investments at Fair Value	13,058,211	80,883
Temporary cash investments, at cost	<u>73,840</u>	<u>26,666</u>
Total Investments	<u>\$ 13,132,051</u>	<u>\$ 107,549</u>

As of December 31, 2017 and 2016 all of the Organization's investments were level 1 investments.

**6. Property and Equipment**

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Office furniture and fixtures	\$ 216,469	\$ 613,398
Website	249,060	618,520
Computers	638,303	840,562
Leasehold improvements	<u>159,956</u>	<u>140,403</u>
	1,263,788	2,212,883
Accumulated depreciation	<u>(586,553)</u>	<u>(1,824,402)</u>
	<u>\$ 677,235</u>	<u>\$ 388,481</u>

**7. Contingent Liabilities**

The Organization may be party to certain claims and assessments arising in the normal course of business. Management does not expect the ultimate resolution of these actions, if any, to have a material adverse effect on the Organization's financial position.

**Pro Publica, Inc.**

Notes to Financial Statements  
December 31, 2017

**8. Temporarily Restricted Net Assets**

Changes in temporarily restricted net assets are as follows for the years ended December 31:

Purpose/Restriction	2017			
	Beginning Balance	Contributions Received	Assets Released	Ending Balance
Internship program underwriting	\$ 204,977	\$ 270,000	\$ (249,443)	\$ 225,534
Healthcare projects	264,432	765,363	(816,109)	213,686
Climate change	1,483,850	-	(204,526)	1,279,324
Reporting on Hate	-	575,000	(375,000)	200,000
News applications	418,627	60,000	(439,159)	39,468
Surveillance economy	189,463	235,008	(299,471)	125,000
Investigating New York's public institutions	230,000	-	(192,109)	37,891
American Politics "What went wrong"	-	1,915,000	(898,935)	1,016,065
Improving transparency of K-12 education	119,862	-	(119,862)	-
Institutional strengthening/expansion	-	8,835,964	(1,014,889)	7,821,075
Timing	2,578,431	14,594,000	(5,634,259)	11,538,172
	<u>\$ 5,489,642</u>	<u>\$ 27,250,335</u>	<u>\$ (10,243,762)</u>	<u>\$ 22,496,215</u>

Purpose/Restriction	2016			
	Beginning Balance	Contributions Received	Assets Released	Ending Balance
Internship program underwriting	\$ 61,500	\$ 270,000	\$ (126,523)	\$ 204,977
Healthcare projects	126,910	939,995	(802,473)	264,432
Climate change	-	1,509,000	(25,150)	1,483,850
News applications	1,833,333	-	(1,414,706)	418,627
Surveillance economy	973,252	65,000	(848,789)	189,463
Investigating New York's public institutions	113,037	272,500	(155,537)	230,000
American Politics "What went wrong"	1,165,947	-	(1,165,947)	-
Improving transparency of K-12 education	37,500	200,000	(117,638)	119,862
Timing	4,162,749	2,225,000	(3,809,318)	2,578,431
	<u>\$ 8,474,228</u>	<u>\$ 5,481,495</u>	<u>\$ (8,466,081)</u>	<u>\$ 5,489,642</u>

**9. Concentration of Revenue**

Funding from a single donor amounted to 17% and 21% of total revenue and support in 2017 and 2016.

**10. Commitments**

The Organization signed a lease for a new office space in New York City that commenced in 2015 and expires in 2025. Under the terms of this lease, the Organization provided an irrevocable letter of credit with a bank of \$882,540 as a security deposit which is renewed annually for this lease agreement and is included in cash on the statement of financial position. The Organization leases space for an office in California that expires in December 2018. Rent expense for all office space for 2017 and 2016 was \$1,175,204 and \$1,111,835. The Organization also has smaller leases from time to time for office equipment. Expenses for the leased office equipment for the years ended December 31, 2017 and 2016 amounted to \$12,020 and \$12,420.

**Pro Publica, Inc.**

Notes to Financial Statements  
December 31, 2017

**10. Commitments (continued)**

Future minimum annual lease payments are as follows:

2018	\$ 1,006,627
2019	995,259
2020	1,070,367
2021	1,099,715
2022	1,129,222
Thereafter	<u>2,352,458</u>
	<u>\$ 7,653,648</u>

**11. Retirement Plan**

The Organization has a 403(b) plan covering all eligible employees in which the Organization matches 100% of all contributions up to 5% of the employees' annual salaries subject to a maximum of \$13,250. The Organization's contributions amounted to \$424,502 and \$325,332 for 2017 and 2016.

**12. Unrelated Business Income Tax**

The Organization is subject to tax on its unrelated business income which is earned through advertising in its newsletter and website. These taxes amounted to \$9,000 and \$3,500 in 2017 and 2016.

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