

Pro Publica, Inc.

Financial Statements

December 31, 2018

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, 2018, 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.

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, 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018 the Organization adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

May 16, 2019

Pro Publica, Inc.

Statement of Financial Position
December 31, 2018
(with comparative amounts at December 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 7,509,002	\$ 5,279,619
Investments	19,168,401	13,132,051
Contributions receivable, net	13,042,094	18,687,901
Prepaid expenses and other assets	530,179	294,136
Property and equipment, net	<u>739,263</u>	<u>677,235</u>
	<u>\$ 40,988,939</u>	<u>\$38,070,942</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 659,311	\$ 372,471
Deferred rent	<u>434,783</u>	<u>373,691</u>
Total Liabilities	<u>1,094,094</u>	<u>746,162</u>
Net Assets		
Without donor restrictions	21,132,503	14,828,565
With donor restrictions	<u>18,762,342</u>	<u>22,496,215</u>
Total Net Assets	<u>39,894,845</u>	<u>37,324,780</u>
	<u>\$ 40,988,939</u>	<u>\$38,070,942</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Activities
 Year Ended December 31, 2018
 (with summarized totals for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
SUPPORT AND REVENUE				
Foundation grants	\$ 9,698,583	\$ 9,113,318	\$ 18,811,901	\$ 36,083,172
Individual contributions	6,764,226	-	6,764,226	6,971,175
Interest and other income	945,566	-	945,566	498,443
Net assets released from restrictions	<u>12,847,191</u>	<u>(12,847,191)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>30,255,566</u>	<u>(3,733,873)</u>	<u>26,521,693</u>	<u>43,552,790</u>
EXPENSES				
Program	20,234,825	-	20,234,825	15,389,850
Management and general	2,471,433	-	2,471,433	1,870,724
Fundraising	<u>1,245,370</u>	<u>-</u>	<u>1,245,370</u>	<u>1,012,703</u>
Total Expenses	<u>23,951,628</u>	<u>-</u>	<u>23,951,628</u>	<u>18,273,277</u>
Change in Net Assets	6,303,938	(3,733,873)	2,570,065	25,279,513
NET ASSETS				
Beginning of year	<u>14,828,565</u>	<u>22,496,215</u>	<u>37,324,780</u>	<u>12,045,267</u>
End of year	<u>\$ 21,132,503</u>	<u>\$ 18,762,342</u>	<u>\$ 39,894,845</u>	<u>\$ 37,324,780</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses
Year Ended December 31, 2018
(with summarized totals for the year ended December 31, 2017)

	Program	Management and General	Fundraising	2018 Total	2017 Total
Staffing	\$ 14,585,525	\$ 1,968,611	\$ 806,374	\$ 17,360,510	\$ 13,387,814
Professional development	70,122	3,515	12,334	85,971	68,742
Occupancy	1,057,144	97,806	48,861	1,203,811	1,175,204
Insurance	132,252	21,612	4,453	158,317	158,277
Freelance and consulting fees	495,173	-	6,041	501,214	407,458
Accounting fees	-	35,250	-	35,250	31,600
Legal fees	346,667	22,278	12,168	381,113	23,635
Recruitment	13,619	1,513	-	15,132	86,389
Travel	905,828	20,638	13,994	940,460	681,102
Website development and design	615,681	72,432	36,217	724,330	547,363
Video/social media	178,520	21,003	10,501	210,024	192,641
Advertising	-	81,511	-	81,511	52,584
Software and tech support	358,850	25,859	54,290	438,999	413,756
New product development	35,143	3,905	-	39,048	34,030
Public records copies and subscriptions	387,661	-	-	387,661	255,053
Telecommunications	145,477	13,733	6,679	165,889	138,097
Repairs and maintenance	77,947	8,479	4,097	90,523	75,906
Printing and postage	10,088	4,035	78,081	92,204	21,954
Meeting expense	83,322	5,810	4,103	93,235	81,932
Supplies	51,453	6,046	1,604	59,103	49,594
Equipment lease	10,361	1,242	1,202	12,805	13,006
Regrants/partner payments	429,110	-	-	429,110	-
Depreciation	238,998	26,555	-	265,553	197,505
Unrelated business income tax expense	-	28,300	-	28,300	9,000
Credit card and bank fees	5,884	1,300	144,371	151,555	170,635
	<u>\$ 20,234,825</u>	<u>\$ 2,471,433</u>	<u>\$ 1,245,370</u>	<u>\$ 23,951,628</u>	<u>\$ 18,273,277</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows
Year Ended December 31, 2018
(with comparative amounts for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,570,065	\$ 25,279,513
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	265,553	197,505
Loss on disposal of assets	11,098	901
Deferred rent	61,092	99,506
Donated stock	(565,448)	(191,155)
Realized and unrealized loss on investments	141	4,856
Changes in operating assets and liabilities		
Contributions receivable	5,645,807	(15,155,084)
Prepaid expenses and other assets	(236,043)	(163,190)
Accounts payable and accrued expenses	286,840	262,397
Net Cash from Operating Activities	<u>8,039,105</u>	<u>10,335,249</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(338,679)	(487,160)
Purchase of investments	(6,023,072)	(13,094,324)
Proceeds from sale of investments	552,029	256,121
Net Cash from Investing Activities	<u>(5,809,722)</u>	<u>(13,325,363)</u>
Net Change in Cash and Cash Equivalents	2,229,383	(2,990,114)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>5,279,619</u>	<u>8,269,733</u>
End of year	<u>\$ 7,509,002</u>	<u>\$ 5,279,619</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrelated business income taxes paid	\$ 28,300	\$ 9,000

See notes to financial statements

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2018

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.

Change in Accounting Principle

On January 1, 2018, the Organization adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Organization to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Organization to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for temporarily restricted net assets were reclassified as net assets with donor restrictions and unrestricted net assets were reclassified as net assets without donor restrictions.

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.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2018

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

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.

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

Net assets without donor restrictions include funds having no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are those whose use is limited by donors to a specific time period or purpose or limited by donors for investment in perpetuity. There were no net assets limited by donors for investment in perpetuity as of December 31, 2018 and 2017.

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 any 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 full amount. 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.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Other Income

Other income consists of program services fees, royalties and licenses and honorariums and prizes among others and are recorded when earned.

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.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function, specifically program services which consist of investigative journalism projects. Certain expenses are attributable to more than one program or supporting function and have been allocated among program services, management and general and fundraising. These expenses include staffing, occupancy, insurance, software and tech support, website development and design among others, which are allocated based on estimates of time and effort.

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 2015.

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 2017, from which the summarized information was derived.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

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 16, 2019.

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 using an appropriate interest rate (commensurate with the risk involved) between approximately 3% and 5%. Management considers all amounts to be fully collectible and accordingly, no allowance for doubtful accounts has been provided.

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

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 6,828,377	\$ 9,917,925
Due within two to four years	6,474,336	9,248,200
Discount to present value	<u>(260,619)</u>	<u>(478,224)</u>
	<u>\$13,042,094</u>	<u>\$ 18,687,901</u>

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2018

5. Investments

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

<u>Description</u>	<u>2018</u>	<u>2017</u>
Equity securities	\$ 28,305	\$ 14,765
Money market mutual fund	<u>19,123,974</u>	<u>13,043,446</u>
Total Investments at Fair Value	19,152,279	13,058,211
Temporary cash investments, at cost	<u>16,122</u>	<u>73,840</u>
Total Investments	<u>\$ 19,168,401</u>	<u>\$ 13,132,051</u>

As of December 31, 2018 and 2017 all of the Organization's investments at fair value were level 1 investments.

6. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Office furniture and fixtures	\$ 241,702	\$ 216,469
Website	178,268	249,060
Computers	718,814	638,303
Leasehold improvements	<u>240,348</u>	<u>159,956</u>
	1,379,132	1,263,788
Accumulated depreciation	<u>(639,869)</u>	<u>(586,553)</u>
	<u>\$ 739,263</u>	<u>\$ 677,235</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, 2018

8. Net Assets with Donor Restrictions

Changes in net assets with donor restrictions are as follows for the years ended December 31:

Purpose/Restriction	2018			
	Beginning Balance	Contributions Received	Assets Released	Ending Balance
Internship program underwriting	\$ 225,534	\$ 318,000	\$ (352,325)	\$ 191,209
Healthcare projects	213,686	749,900	(745,505)	218,081
Climate change	1,279,324	-	(253,467)	1,025,857
Reporting on Hate	200,000	200,000	(400,000)	-
News applications	39,468	60,000	(50,052)	49,416
Surveillance economy	125,000	-	(125,000)	-
Investigating New York's public institutions	37,891	240,000	(53,234)	224,657
Immigration	-	160,000	(97,324)	62,676
American Politics "What went wrong"	1,016,065	575,000	(1,431,770)	159,295
Improving transparency of K-12 education	-	200,000	(25,893)	174,107
Diversity Initiatives	-	146,518	(1,518)	145,000
Video Journalism	-	188,900	(34,621)	154,279
Institutional strengthening/expansion	7,821,075	2,315,000	(3,049,494)	7,086,581
Timing	11,538,172	3,960,000	(6,226,988)	9,271,184
	<u>\$ 22,496,215</u>	<u>\$ 9,113,318</u>	<u>\$(12,847,191)</u>	<u>\$ 18,762,342</u>

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>

9. Concentration of Revenue

Funding from a single donor amounted to 11% and 17% of total revenue and support in 2018 and 2017.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2018

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 2020 and an office in Chicago that expires in December 2019. Rent expense for all office space for 2018 and 2017 was \$1,203,811 and \$1,175,204. 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, 2018 and 2017 amounted to \$12,895 and \$12,020.

Future minimum annual lease payments are as follows:

2019	\$ 1,159,362
2020	1,110,723
2021	1,101,131
2022	1,129,222
2023	1,160,275
Thereafter	<u>1,192,183</u>
	<u>\$ 6,852,896</u>

11. Liquidity and Availability of Financial Assets

The Organization's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position were as follows:

Financial assets:	
Cash and cash equivalents	\$ 7,509,002
Investments	19,168,401
Contributions receivable	<u>13,042,094</u>
Total financial assets	<u>39,719,497</u>
Less: Contractual or donor imposed restrictions amounts	
Contributions receivable - Due in future years	6,213,717
Restricted by donor with time or purpose restrictions	<u>12,548,625</u>
	<u>18,762,342</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 20,957,155</u>

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2018

11. Liquidity and Availability of Financial Assets (continued)

As part of the Organization's liquidity management strategy, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization's working capital and cash flows have cyclical variations during the year attributable to the cash receipts of contributions from donors. Contributions receivable are subject to implied time restrictions and are expected to be collected over the next several years. A majority of general expenditures over the next twelve months are financed through cash and investments.

12. 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 \$550,798 and \$424,502 for 2018 and 2017.

13. 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 \$28,300 and \$9,000 in 2018 and 2017.

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