Pro Publica, Inc.

Financial Statements

December 31, 2019

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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, 2019, 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.

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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, 2019, 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, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

July 14, 2020

Pro Publica, Inc.

Statement of Financial Position
December 31, 2019
(with comparative amounts at December 31, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 7,419,727	$ 7,509,002
Investments	25,578,860	19,168,401
Contributions receivable, net	16,985,216	13,042,094
Prepaid expenses and other assets	640,015	530,179
Property and equipment, net	628,991	739,263
	$ 51,252,809	$40,988,939
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 254,144	$ 659,311
Deferred rent	494,345	434,783
Total Liabilities	748,489	1,094,094
Net Assets		
Without donor restrictions	28,252,244	21,132,503
With donor restrictions	22,252,076	18,762,342
Total Net Assets	50,504,320	39,894,845
	$ 51,252,809	$40,988,939

See notes to financial statements

Pro Publica, Inc.

Statement of Activities
Year Ended December 31, 2019
(with summarized totals for the year ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
SUPPORT AND REVENUE				
Foundation grants	$ 10,686,215	$ 17,901,597	$ 28,587,812	$ 18,811,901
Individual contributions	7,943,025	835,914	8,778,939	6,764,226
Investment return	507,373	-	507,373	287,836
Program service fees	540,200	-	540,200	262,000
Other income	420,514	-	420,514	395,730
Net assets released from restrictions	15,247,777	(15,247,777)	-	-
Total Support and Revenue	35,345,104	3,489,734	38,834,838	26,521,693
EXPENSES				
Program	24,100,081	-	24,100,081	20,234,825
Management and general	2,846,404	-	2,846,404	2,471,433
Fundraising	1,278,878	-	1,278,878	1,245,370
Total Expenses	28,225,363	-	28,225,363	23,951,628
Change in Net Assets	7,119,741	3,489,734	10,609,475	2,570,065
NET ASSETS				
Beginning of year	21,132,503	18,762,342	39,894,845	37,324,780
End of year	$ 28,252,244	$ 22,252,076	$ 50,504,320	$ 39,894,845

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses
Year Ended December 31, 2019
(with summarized totals for the year ended December 31, 2018)

	Program	Management and General	Fundraising	2019 Total	2018 Total
Staffing	$ 17,627,952	$ 2,263,312	$ 811,429	$ 20,702,693	$ 17,360,510
Professional development	57,569	5,273	20,904	83,746	85,971
Occupancy	1,207,985	102,017	50,583	1,360,585	1,203,811
Insurance	213,298	41,382	12,382	267,062	158,317
Freelance and consulting fees	538,352	-	36,909	575,261	501,214
Accounting fees	-	69,502	-	69,502	35,250
Legal fees, net of reimbursement	(155,297)	21,209	13,047	(121,041)	381,113
Recruitment	46,738	15,511	-	62,249	15,132
Travel	978,142	11,602	13,917	1,003,661	940,460
Website development and design	601,991	70,823	35,411	708,225	724,330
Video/social media	83,543	9,829	4,914	98,286	210,024
Advertising	-	51,762	-	51,762	81,511
Software and tech support	296,268	15,854	59,527	371,649	438,999
New product development	38,611	4,291	-	42,902	39,048
Public records copies and subscriptions	255,788	-	-	255,788	387,661
Telecommunications	210,527	19,596	9,344	239,467	165,889
Repairs and maintenance	48,641	8,511	2,641	59,793	90,523
Printing and postage	9,056	2,310	77,363	88,729	92,204
Meeting expense	68,076	61,041	2,591	131,708	93,235
Supplies	52,816	5,741	4,130	62,687	59,103
Equipment lease	13,614	1,602	2,311	17,527	12,805
Regrants/partner payments	1,597,052	-	-	1,597,052	429,110
Depreciation	268,295	29,811	-	298,106	265,553
Unrelated business income tax expense	-	21,178	-	21,178	28,300
Credit card and bank fees	41,064	14,247	121,475	176,786	151,555
	$ 24,100,081	$ 2,846,404	$ 1,278,878	$ 28,225,363	$ 23,951,628

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows
Year Ended December 31, 2019
(with comparative amounts for the year ended December 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$10,609,475	$ 2,570,065
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	298,106	265,553
Loss on disposal of assets	-	11,098
Deferred rent	59,562	61,092
Donated stock	(203,384)	(565,448)
Realized and unrealized loss on investments	7,848	141
Changes in operating assets and liabilities		
Contributions receivable	(3,943,122)	5,645,807
Prepaid expenses and other assets	(109,836)	(236,043)
Accounts payable and accrued expenses	(405,167)	286,840
Net Cash from Operating Activities	6,313,482	8,039,105
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(187,834)	(338,679)
Purchase of investments	(6,428,758)	(6,023,072)
Proceeds from sale of investments	213,835	552,029
Net Cash from Investing Activities	(6,402,757)	(5,809,722)
Net Change in Cash and Cash Equivalents	(89,275)	2,229,383
CASH AND CASH EQUIVALENTS		
Beginning of year	7,509,002	5,279,619
End of year	$ 7,419,727	$ 7,509,002
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrelated business income taxes paid	$ 21,178	$ 28,300

See notes to financial statements

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2019

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

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made ("ASU 2018-08"). ASU 2018-08 provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as nonexchange transactions. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018 and the Organization adopted ASU 2018-08 on a modified prospective basis and has determined there to be an immaterial impact to its financial statements.

Effective January 1, 2019, the Organization adopted new US GAAP revenue recognition guidance which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the new guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework. As permitted by the new framework, the Organization elected not to adjust the promised amount of consideration for the effects of a significant financing component as all revenue is collected within one year or less. Adoption of the ASU had no impact on the Organization's financial statements.

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

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.

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, 2019 and 2018.

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

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 general 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.

Other Income

Other income consists of 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, 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.

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

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 2016.

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 2018, from which the summarized information was derived.

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 July 14, 2020.

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 1.5% and 5%. Management considers all amounts to be fully collectible and accordingly, no allowance for doubtful accounts has been provided.

4. Contributions Receivable *(continued)*

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

	2019	2018
Due within one year	$ 10,640,363	$ 6,828,377
Due within two to four years	6,539,000	6,474,336
Discount to present value	(194,147)	(260,619)
	$ 16,985,216	$ 13,042,094

5. Investments

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

Description	2019	2018
Equity securities	$ 15,200	$ 28,305
Money market mutual fund	25,559,594	19,123,974
Total Investments at Fair Value	25,574,794	19,152,279
Temporary cash investments, at cost	4,066	16,122
Total Investments	$ 25,578,860	$ 19,168,401

As of December 31, 2019 and 2018 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:

	2019	2018
Office furniture and fixtures	$ 249,841	$ 241,702
Website	197,972	178,268
Computers	756,155	718,814
Leasehold improvements	266,318	240,348
	1,470,286	1,379,132
Accumulated depreciation	(841,295)	(639,869)
	$ 628,991	$ 739,263

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.

8. Net Assets with Donor Restrictions

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

	2019			
Purpose/Restriction	Beginning Balance	Contributions Received	Assets Released	Ending Balance
Internship program underwriting	$ 191,209	$ 238,000	$ (297,724)	$ 131,485
Healthcare projects	218,081	755,198	(676,694)	296,585
Climate change	1,025,857	615,000	(352,629)	1,288,228
News applications	49,416	50,000	(76,000)	23,416
Investigating New York's public institutions	224,657	50,000	(193,868)	80,789
Immigration	62,676	-	(62,676)	-
American Politics "What Went Wrong"	159,295	1,264,556	(266,290)	1,157,561
Improving transparency of K-12 education	174,107	-	(101,165)	72,942
Diversity initiatives	145,000	-	(90,963)	54,037
Video journalism	154,279	-	(129,004)	25,275
Institutional strengthening/expansion	7,086,581	9,829,757	(6,556,577)	10,359,761
Timing	9,271,184	5,935,000	(6,444,187)	8,761,997
	$ 18,762,342	$ 18,737,511	$ (15,247,777)	$ 22,252,076

	2018			
Purpose/Restriction	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
	$ 22,496,215	$ 9,113,318	$ (12,847,191)	$ 18,762,342

9. Concentration of Revenue and Contributions Receivable

Funding from a single donor amounted to 13% and 11% of total support and revenue in 2019 and 2018. Funding from two donors amounted to 42% of total contributions receivable at December 31, 2019 and funding from four donors amounted to 74% of total contributions receivable at December 31, 2018.

10. Commitments

The Organization signed a lease for a new office space in New York City that commenced in January 2015 and expires in January 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 and cash equivalents on the statement of financial position. The Organization leases space for an office in California that expires in December 2020, an office in Washington, DC that expires in April 2021 and an office in Chicago that expires in December 2021. Rent expense for all office space for 2019 and 2018 was $1,360,585 and $1,203,811. 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, 2019 and 2018 amounted to $17,527 and $12,805.

Future minimum annual lease payments are as follows:

2020	$ 1,352,280
2021	1,270,437
2022	1,127,814
2023	1,158,829
2024	1,190,697
2025	55,526
	$ 6,155,583

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 $13,750. The Organization's contributions amounted to $669,960 and $550,798 for 2019 and 2018.

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 $21,178 and $28,300 in 2019 and 2018.

13. 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	$ 7,419,727
Investments	25,578,860
Contributions receivable	16,985,216
Total financial assets	49,983,803
Less: Contractual or donor imposed restrictions amounts	
Contributions receivable - Due in future years	6,344,853
Restricted by donor with time or purpose restrictions	15,907,223
	22,252,076
Financial assets available to meet general expenditures over the next twelve months	$ 27,731,727

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.

14. Subsequent Events

Subsequent to year end, the coronavirus outbreak may have a potentially adverse effect on the results of operations. Given the uncertainty around the extent and timing of the potential future spread or mitigation of the coronavirus and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact to future results of operations, cash flows, or financial condition.

The COVID-19 pandemic has resulted in substantial volatility in the global financial markets. Due to the Organization's stable investments, the decline in fair value is expected to be limited. Because the value of the Organization's investments may fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods, cannot be determined.

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