

Pro Publica, Inc.

Financial Statements

December 31, 2016

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, 2016, 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

May 15, 2017

Pro Publica, Inc.

Statement of Financial Position
December 31, 2016
(with comparative amounts at December 31, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 8,269,733	\$ 5,141,970
Contributions receivable, net	3,532,817	5,821,936
Prepaid expenses and other assets	130,946	176,765
Investments	107,549	2,522
Property and equipment, net	<u>388,481</u>	<u>408,871</u>
	<u>\$ 12,429,526</u>	<u>\$11,552,064</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 110,074	\$ 136,734
Deferred rent	<u>274,185</u>	<u>148,703</u>
Total Liabilities	<u>384,259</u>	<u>285,437</u>
Net Assets		
Unrestricted	6,555,625	2,792,399
Temporarily restricted	<u>5,489,642</u>	<u>8,474,228</u>
Total Net Assets	<u>12,045,267</u>	<u>11,266,627</u>
	<u>\$ 12,429,526</u>	<u>\$11,552,064</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Activities
Year Ended December 31, 2016
(with summarized totals for the year ended December 31, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
SUPPORT AND REVENUE				
Foundation grants	\$ 4,414,530	\$ 5,481,495	\$ 9,896,025	\$ 15,592,211
Individual contributions	3,868,128	-	3,868,128	1,288,753
Interest and other income	562,904	-	562,904	165,966
Net assets released from restrictions	<u>8,466,081</u>	<u>(8,466,081)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>17,311,643</u>	<u>(2,984,586)</u>	<u>14,327,057</u>	<u>17,046,930</u>
EXPENSES				
Program	11,393,913	-	11,393,913	10,716,533
Management and general	1,575,967	-	1,575,967	1,279,495
Fundraising	<u>578,537</u>	<u>-</u>	<u>578,537</u>	<u>465,121</u>
Total Expenses	<u>13,548,417</u>	<u>-</u>	<u>13,548,417</u>	<u>12,461,149</u>
Change in Net Assets	3,763,226	(2,984,586)	778,640	4,585,781
NET ASSETS				
Beginning of year	<u>2,792,399</u>	<u>8,474,228</u>	<u>11,266,627</u>	<u>6,680,846</u>
End of year	<u>\$ 6,555,625</u>	<u>\$ 5,489,642</u>	<u>\$ 12,045,267</u>	<u>\$ 11,266,627</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses
Year Ended December 31, 2016
(with summarized totals for the year ended December 31, 2015)

	Program	Management and General	Fundraising	2016 Total	2015 Total
Staffing	\$ 8,457,331	\$ 1,270,978	\$ 376,869	\$ 10,105,178	\$ 9,484,358
Professional development	32,109	1,610	-	33,719	23,600
Occupancy	985,479	106,244	20,112	1,111,835	933,257
Insurance	89,577	13,533	-	103,110	113,224
Freelance and consulting fees	353,709	1,550	469	355,728	221,756
Accounting fees	24,520	4,258	3,065	31,843	29,750
Legal fees	26,664	1,429	13,860	41,953	13,042
Recruitment	8,263	350	-	8,613	27,799
Travel	527,407	12,557	22,977	562,941	476,409
Website development and design	294,799	23,242	39,828	357,869	335,657
Advertising	-	43,019	-	43,019	46,297
Software and tech support	71,668	33,078	5,513	110,259	94,316
Public records copies and subscriptions	159,417	13,373	5,002	177,792	197,502
Telecommunications	80,840	8,538	75	89,453	108,731
Repairs and maintenance	55,120	7,146	-	62,266	75,179
Printing and postage	2,641	811	810	4,262	4,734
Office expense	-	-	-	-	8,111
Meeting expense	51,578	8,136	5,591	65,305	50,571
Supplies	25,263	2,311	-	27,574	29,393
Equipment lease	12,933	1,633	-	14,566	13,414
Depreciation	134,339	11,738	-	146,077	160,102
Unrelated business income tax expense	-	3,500	-	3,500	5,861
Credit card and bank fees	256	6,933	84,366	91,555	8,086
	<u>\$ 11,393,913</u>	<u>\$ 1,575,967</u>	<u>\$ 578,537</u>	<u>\$ 13,548,417</u>	<u>\$ 12,461,149</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows
Year Ended December 31, 2016
(with comparative amounts for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 778,640	\$ 4,585,781
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	146,077	160,102
Deferred rent	125,482	148,703
Donated stock	(179,827)	(46,666)
Realized and unrealized loss on investments	709	-
Changes in operating assets and liabilities		
Contributions receivable	2,289,119	(4,386,531)
Prepaid expenses and other assets	45,819	(18,871)
Accounts payable and accrued expenses	<u>(26,660)</u>	<u>(47,538)</u>
Net Cash from Operating Activities	<u>3,179,359</u>	<u>394,980</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(125,687)	(316,734)
Proceeds from sale of investments	<u>74,091</u>	<u>65,311</u>
Net Cash from Investing Activities	<u>(51,596)</u>	<u>(251,423)</u>
Net Change in Cash and Cash Equivalents	3,127,763	143,557
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>5,141,970</u>	<u>4,998,413</u>
End of year	<u>\$ 8,269,733</u>	<u>\$ 5,141,970</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrelated business income taxes paid	\$ 3,500	\$ 5,861

See notes to financial statements

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2016

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, 2016

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 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, 2016 and 2015.

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 audits by the applicable taxing jurisdictions for periods prior to 2013.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2016

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 2015, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 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 15, 2017.

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 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. 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 (2.92% at December 31, 2016 and 2015) 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
December 31, 2016

4. Contributions Receivable (continued)

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

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 2,300,711	\$ 4,604,349
Due within two to four years	1,294,667	1,250,001
Discount to present value	<u>(62,561)</u>	<u>(32,414)</u>
	<u>\$ 3,532,817</u>	<u>\$ 5,821,936</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>2016</u>	<u>2015</u>
Equity securities	\$ 50,656	\$ 1,495
Exchange traded funds	<u>30,227</u>	<u>-</u>
Total Investments at Fair Value	80,883	1,495
Temporary cash investments, at cost	<u>26,666</u>	<u>1,027</u>
Total Investments	<u>\$ 107,549</u>	<u>\$ 2,522</u>

As of December 31, 2016 and 2015 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>2016</u>	<u>2015</u>
Office furniture and fixtures	\$ 613,398	\$ 609,243
Website	618,520	567,157
Computers	840,562	770,393
Leasehold improvements	<u>140,403</u>	<u>140,403</u>
	2,212,883	2,087,196
Accumulated depreciation	<u>(1,824,402)</u>	<u>(1,678,325)</u>
	<u>\$ 388,481</u>	<u>\$ 408,871</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, 2016

8. Temporarily Restricted Net Assets

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

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>

Purpose/Restriction	2015			
	Beginning Balance	Contributions Received	Assets Released	Ending Balance
Internship program underwriting	\$ 39,542	\$ 168,000	\$ (146,042)	\$ 61,500
Healthcare projects	29,167	761,463	(663,720)	126,910
Environmental reporting trust	33,274	-	(33,274)	-
News applications	350,000	2,200,000	(716,667)	1,833,333
Surveillance economy	125,000	1,342,114	(493,862)	973,252
Investigating New York's public institutions	266,014	-	(152,977)	113,037
American Politics "What went wrong"	45,068	1,982,886	(862,007)	1,165,947
Improving transparency of K-12 education	112,500	-	(75,000)	37,500
Timing	2,237,367	4,945,000	(3,019,618)	4,162,749
	<u>\$ 3,237,932</u>	<u>\$ 11,399,463</u>	<u>\$ (6,163,167)</u>	<u>\$ 8,474,228</u>

9. Concentration of Revenue

Funding from a single donor amounted to 21% and 18% of total revenue and support in 2016 and 2015.

10. Commitments

The Organization signed a lease for a new office space in New York City that commenced in 2015 and expires in 2029. 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 2016 and 2015 was \$1,111,835 and \$933,257. The Organization leases a copier for its NYC office that expires in 2016. Copier expense for the years ended December 31, 2016 and 2015 amounted to \$12,420 and \$12,480.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2016

10. Commitments (continued)

Future minimum annual lease payments are as follows:

2017	\$ 979,153
2018	1,005,846
2019	994,478
2020	1,069,586
2021	1,098,999
Thereafter	<u>3,481,680</u>
	<u>\$ 8,629,742</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 \$325,332 and \$312,630 for 2016 and 2015.

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 \$3,500 and \$5,861 in 2016 and 2015.

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