

Pro Publica, Inc.

Financial Statements

December 31, 2015

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, 2015, 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, 2015, 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, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

May 13, 2016

Pro Publica, Inc.

Statement of Financial Position
December 31, 2015
(with comparative amounts at December 31, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 5,141,970	\$ 4,998,413
Accounts receivable	1,108	5,817
Contributions receivable, net	5,821,936	1,435,405
Prepaid expenses	171,397	147,817
Investments	2,522	21,167
Security deposit	4,260	4,260
Property and equipment, net	<u>408,871</u>	<u>252,239</u>
	<u>\$ 11,552,064</u>	<u>\$ 6,865,118</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 136,734	\$ 184,272
Deferred rent	<u>148,703</u>	<u>-</u>
Total Liabilities	<u>285,437</u>	<u>184,272</u>
Net Assets		
Unrestricted	2,792,399	3,442,914
Temporarily restricted	<u>8,474,228</u>	<u>3,237,932</u>
Total Net Assets	<u>11,266,627</u>	<u>6,680,846</u>
	<u>\$ 11,552,064</u>	<u>\$ 6,865,118</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Activities
Year Ended December 31, 2015
(with summarized totals for the year ended December 31, 2014)

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
SUPPORT AND REVENUE				
Foundation grants	\$ 4,270,748	\$ 11,321,463	\$ 15,592,211	\$ 7,644,592
Individual contributions	1,210,753	78,000	1,288,753	2,524,184
Interest and other income	165,966	-	165,966	155,499
Net assets released from restrictions	<u>6,163,167</u>	<u>(6,163,167)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>11,810,634</u>	<u>5,236,296</u>	<u>17,046,930</u>	<u>10,324,275</u>
EXPENSES				
Program	10,716,533	-	10,716,533	9,773,851
Management and general	1,279,495	-	1,279,495	1,230,239
Fundraising	<u>465,121</u>	<u>-</u>	<u>465,121</u>	<u>482,362</u>
Total Expenses	<u>12,461,149</u>	<u>-</u>	<u>12,461,149</u>	<u>11,486,452</u>
Change in Net Assets	(650,515)	5,236,296	4,585,781	(1,162,177)
NET ASSETS				
Beginning of year	<u>3,442,914</u>	<u>3,237,932</u>	<u>6,680,846</u>	<u>7,843,023</u>
End of year	<u>\$ 2,792,399</u>	<u>\$ 8,474,228</u>	<u>\$ 11,266,627</u>	<u>\$ 6,680,846</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses
Year Ended December 31, 2015
(with summarized totals for the year ended December 31, 2014)

	Program	Management and General	Fundraising	2015 Total	2014 Total
Staffing	\$ 8,146,458	\$ 948,078	\$ 389,822	\$ 9,484,358	\$ 8,702,960
Professional development	23,092	508	-	23,600	29,586
Occupancy	761,149	172,108	-	933,257	830,142
Insurance	99,234	13,990	-	113,224	106,020
Freelance and consulting fees	215,996	5,760	-	221,756	215,768
Accounting fees	23,800	2,975	2,975	29,750	28,749
Legal fees	-	489	12,553	13,042	60,585
Recruitment	27,056	160	583	27,799	25,591
Travel	459,732	3,677	13,000	476,409	473,814
Website development and design	297,153	2,600	35,904	335,657	255,504
Advertising	45,446	-	851	46,297	21,787
Software and tech support	65,060	29,009	247	94,316	81,524
Public records copies and subscriptions	149,030	47,816	656	197,502	200,346
Telecommunications	97,984	10,747	-	108,731	105,307
Repairs and maintenance	67,187	7,992	-	75,179	62,284
Printing and postage	3,891	514	329	4,734	5,308
Office expense	6,152	1,959	-	8,111	27
Meeting expense	41,940	8,195	436	50,571	30,583
Supplies	25,690	3,703	-	29,393	23,253
Equipment lease	12,071	1,343	-	13,414	15,637
Depreciation	148,398	11,704	-	160,102	170,136
Bad debt expense	-	-	-	-	20,000
Unrelated business income tax expense	-	5,861	-	5,861	3,721
Credit card and bank fees	14	307	7,765	8,086	17,820
	<u>\$ 10,716,533</u>	<u>\$ 1,279,495</u>	<u>\$ 465,121</u>	<u>\$ 12,461,149</u>	<u>\$ 11,486,452</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows
Year Ended December 31, 2015
(with comparative amounts for the year ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,585,781	\$ (1,162,177)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	160,102	170,136
Deferred rent	148,703	-
Donated stock	(46,666)	(36,667)
Changes in operating assets and liabilities		
Accounts receivable	4,709	(4,125)
Contributions receivable	(4,386,531)	3,071,039
Prepaid expenses	(23,580)	(42,201)
Accounts payable and accrued expenses	(47,538)	88,826
Net Cash from Operating Activities	<u>394,980</u>	<u>2,084,831</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(316,734)	(188,363)
Proceeds from sale of investments	65,311	15,500
Security deposit received (paid)	-	(300)
Net Cash from Investing Activities	<u>(251,423)</u>	<u>(173,163)</u>
Net Change in Cash and Cash Equivalents	143,557	1,911,668
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,998,413</u>	<u>3,086,745</u>
End of year	<u>\$ 5,141,970</u>	<u>\$ 4,998,413</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrelated business income taxes paid	\$ 5,861	\$ 3,721

See notes to financial statements

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2015

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, 2015

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. 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.

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 2012.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2015

2. Summary of Significant Accounting Policies (continued)

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total, 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 2014, 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 May 13, 2016.

3. 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 and are deemed to be fully collectible by management. Contributions to be received after one year are discounted at an appropriate interest rate (2.92% at December 31, 2015) commensurate with the risk involved.

Management expects contributions receivable at December 31, 2015 to be realized in the following periods:

Due within one year	\$ 4,604,349
Due within two to three years	1,250,001
Discount to present value	(32,414)
	<u>\$ 5,821,936</u>

4. Investments

All investments consist of equity securities. As of December 31, 2015 and 2014 all of the Organization's investments were level 1 investments.

5. 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.

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Notes to Financial Statements
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6. Property and Equipment

Property and equipment consist of the following at December 31, 2015:

Office furniture and fixtures	\$ 609,243
Website	567,157
Computers	770,393
Leasehold improvements	<u>140,403</u>
	2,087,196
Accumulated depreciation	<u>(1,678,325)</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.

8. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for 2015 are as follows:

<u>Purpose/Restriction</u>	<u>Beginning Balance</u>	<u>Contributions Received</u>	<u>Assets Released</u>	<u>Ending Balance</u>
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	<u>2,237,367</u>	<u>4,945,000</u>	<u>(3,019,618)</u>	<u>4,162,749</u>
	<u>\$ 3,237,932</u>	<u>\$ 11,399,463</u>	<u>\$ (6,163,167)</u>	<u>\$ 8,474,228</u>

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9. 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. The Organization leases space for an office in Maryland that expires in June 2016 and a second office space in California that expires in December 2018. Rent expense for all office space for 2015 was \$933,257. The Organization leases a copier for its NYC office that expires in 2016. Copier expense for the year ending December 31, 2015 amounted to \$12,480. Future minimum annual lease payments are as follows:

2016	\$ 960,343
2017	967,393
2018	994,086
2019	983,698
2020	1,069,586
Thereafter	<u>4,580,679</u>
	<u>\$ 9,555,785</u>

10. 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 \$312,630 for 2015.

11. 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 approximately \$5,861 in 2015.

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