

Pro Publica, Inc.

Financial Statements

December 31, 2014

Independent Auditors' Report

Board of Directors Pro Publica, Inc.

We have audited the accompanying financial statements of Pro Publica, Inc. which comprise the statement of financial position as of December 31, 2014, 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, 2014, 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 Pro Publica, Inc.'s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

May 21, 2015

Pro Publica, Inc.

Statement of Financial Position
December 31, 2014
(with comparative amounts at December 31, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 4,998,413	\$ 3,086,745
Accounts receivable	5,817	1,692
Contributions receivable, net	1,435,405	4,506,444
Prepaid expenses	147,817	105,616
Investments	21,167	-
Security deposit	4,260	3,960
Property and equipment, net	<u>252,239</u>	<u>234,012</u>
	<u>\$ 6,865,118</u>	<u>\$ 7,938,469</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 184,272</u>	<u>\$ 95,446</u>
Net Assets		
Unrestricted	3,442,914	3,593,023
Temporarily restricted	<u>3,237,932</u>	<u>4,250,000</u>
Total Net Assets	<u>6,680,846</u>	<u>7,843,023</u>
	<u>\$ 6,865,118</u>	<u>\$ 7,938,469</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Activities
Year Ended December 31, 2014
(with summarized totals for the year ended December 31, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
SUPPORT AND REVENUE				
Foundation grants	\$ 4,604,592	\$ 3,040,000	\$ 7,644,592	\$ 10,807,343
Individual contributions	2,451,184	73,000	2,524,184	2,869,698
Interest and other income	155,499	-	155,499	88,426
Net assets released from restrictions	4,125,068	(4,125,068)	-	-
Total Support and Revenue	<u>11,336,343</u>	<u>(1,012,068)</u>	<u>10,324,275</u>	<u>13,765,467</u>
EXPENSES				
Program	9,773,851	-	9,773,851	8,711,628
Management and general	1,230,239	-	1,230,239	1,224,787
Fundraising	482,362	-	482,362	396,394
Total Expenses	<u>11,486,452</u>	<u>-</u>	<u>11,486,452</u>	<u>10,332,809</u>
Change in Net Assets	(150,109)	(1,012,068)	(1,162,177)	3,432,658
NET ASSETS				
Beginning of year	<u>3,593,023</u>	<u>4,250,000</u>	<u>7,843,023</u>	<u>4,410,365</u>
End of year	<u>\$ 3,442,914</u>	<u>\$ 3,237,932</u>	<u>\$ 6,680,846</u>	<u>\$ 7,843,023</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses

Year Ended December 31, 2014

(with summarized totals for the year ended December 31, 2013)

	Program	Management and General	Fundraising	2014 Total	2013 Total
Staffing	\$ 7,331,105	\$ 987,558	\$ 384,297	\$ 8,702,960	\$ 7,907,478
Professional development	27,819	1,757	10	29,586	27,397
Occupancy	748,309	81,833	-	830,142	751,841
Insurance	93,815	12,205	-	106,020	97,652
Freelance and consulting fees	185,330	-	30,438	215,768	100,394
Accounting fees	-	25,874	2,875	28,749	28,000
Legal fees	45,691	1,309	13,585	60,585	33,944
Recruitment	25,511	80	-	25,591	28,075
Travel	443,610	68	30,136	473,814	435,292
Website development and design	250,732	580	4,192	255,504	204,033
Advertising	21,787	-	-	21,787	36,242
Software and tech support	56,417	24,507	600	81,524	60,444
Public records copies and subscriptions	193,462	365	6,519	200,346	136,878
Telecommunications	95,206	10,053	48	105,307	107,583
Repairs and maintenance	56,090	6,194	-	62,284	65,071
Printing and postage	4,550	401	357	5,308	4,762
Office expense	27	-	-	27	-
Meeting expense	22,922	7,022	639	30,583	33,506
Supplies	19,967	3,286	-	23,253	23,677
Equipment lease	13,855	1,782	-	15,637	12,774
Depreciation	137,436	32,700	-	170,136	223,469
Bad debt expense	-	20,000	-	20,000	-
Unrelated business income tax expense	-	3,721	-	3,721	3,516
Credit card and bank fees	210	8,944	8,666	17,820	10,781
	<u>\$ 9,773,851</u>	<u>\$ 1,230,239</u>	<u>\$ 482,362</u>	<u>\$ 11,486,452</u>	<u>\$ 10,332,809</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows
Year Ended December 31, 2014
(with comparative amounts for the year ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,162,177)	\$ 3,432,658
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	170,136	223,469
Amortization of rent allowance	-	(19,800)
Donated stock	(36,667)	(84,220)
Changes in operating assets and liabilities		
Accounts receivable	(4,125)	(680)
Contributions receivable	3,071,039	(2,313,785)
Prepaid expenses	(42,201)	7,235
Accounts payable and accrued expenses	<u>88,826</u>	<u>(3,832)</u>
Net Cash from Operating Activities	<u>2,084,831</u>	<u>1,241,045</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(188,363)	(138,171)
Proceeds from sale of investments	15,500	108,657
Security deposit received (paid)	<u>(300)</u>	<u>1,657</u>
Net Cash from Investing Activities	<u>(173,163)</u>	<u>(27,857)</u>
Net Change in Cash and Cash Equivalents	1,911,668	1,213,188
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,086,745</u>	<u>1,873,557</u>
End of year	<u>\$ 4,998,413</u>	<u>\$ 3,086,745</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrelated business income taxes paid	\$ 3,721	\$ 3,516

See notes to financial statements

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2014

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 financial statement purposes, the Organization considers all highly liquid investments 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.

Contributions Receivable

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.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2014

2. Summary of Significant Accounting Policies (continued)

Investments and Investment Income Recognition

Investments are stated 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 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 investments in perpetuity.

Contributions and Grants

Contributions and grants are recorded when unconditional promises to give are made. Marketable securities contributed are recorded at the fair value at the date of contribution. 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. 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.

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 2011.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2014

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 2013, 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 21, 2015.

3. Contributions Receivable

Unconditional pledges are included in the financial statements as contributions receivable and revenue, are 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 (3.74% at December 31, 2014) commensurate with the risk involved.

Management expects contributions receivable at December 31, 2014 to be realized in the following periods:

Due within one year	\$ 1,083,564
Due within two to three years	365,000
Discount to present value	<u>(13,159)</u>
	<u>\$ 1,435,405</u>

4. 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.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2014

5. Property and Equipment

Property and equipment consist of the following at December 31, 2014:

Office furniture and fixtures	\$ 578,638
Website	542,042
Computers	<u>649,782</u>
	1,770,462
Accumulated depreciation	<u>(1,518,223)</u>
	<u>\$ 252,239</u>

6. 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.

7. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for 2014 are as follows:

Purpose/Restriction	Balance	Received	Released	Balance
Internship program underwriting	\$ -	\$ 73,000	\$ (33,458)	\$ 39,542
Healthcare projects	-	35,000	(5,833)	29,167
Environmental reporting trust	41,667	35,000	(43,393)	33,274
News applications	1,010,000	-	(660,000)	350,000
Surveillance economy	-	300,000	(175,000)	125,000
Investigating New York's public institutions	-	350,000	(83,986)	266,014
Dark money	-	50,000	(4,932)	45,068
Improving transparency of K-12 education	-	150,000	(37,500)	112,500
Multi media	-	100,000	(100,000)	-
Timing	<u>3,198,333</u>	<u>2,020,000</u>	<u>(2,980,966)</u>	<u>2,237,367</u>
	<u>\$ 4,250,000</u>	<u>\$ 3,113,000</u>	<u>\$ (4,125,068)</u>	<u>\$ 3,237,932</u>

8. Economic Dependency

Funding from a single donor amounted to 39% of total revenue and support in 2014.

Pro Publica, Inc.

Notes to Financial Statements
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9. Commitments

The Organization has a lease agreement for its New York City office space that expires in 2015. The Organization has a letter of credit with a bank of \$97,110 which is renewed annually for this lease agreement. In 2014, the Organization signed a lease for a new office space in New York City to commence in 2015 and expires in 2029. The Organization has a letter of credit with a bank of \$882,540 which is renewed annually for this lease agreement. The Organization leases space for an office in Maryland that expires in June 2015 and a second office space in California that expires in December 2018. Rent expense for all office space for 2014 was \$830,142. The Organization leases a copier for its NYC office that expires in 2016. Copier expense for the year ended December 31, 2014 amounted to \$15,637. Approximate future minimum annual lease payments at December 31, 2014 are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 1,063,592
2016	952,858
2017	967,393
2018	994,086
2019	983,698
Thereafter	<u>5,650,264</u>
	<u>\$ 10,611,891</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 \$12,750. The Organization's contributions amounted to \$289,251 for 2014.

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 web site. These taxes amounted to \$3,721 in 2014.

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