Financial Statements

December 31, 2021



Independent Auditors' Report

Board of Directors Pro Publica, Inc.

Opinion

We have audited the accompanying financial statements of Pro Publica, Inc. (the "Organization") which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date of the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

Board of Directors Pro Publica, Inc. Page 2

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies LLP

May 5, 2022

Statement of Financial Position December 31, 2021 (with comparative amounts at December 31, 2020)

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 11,870,733	\$13,343,390
Investments	36,068,729	28,649,443
Contributions receivable, net	11,587,301	15,350,410
Prepaid expenses and other assets	809,626	838,012
Property and equipment, net	446,292	485,104
	<u>\$ 60,782,681</u>	\$58,666,359
LIABILITIES AND NET ASSETS Liabilities		
Accounts payable and accrued expenses	\$ 473,080	\$ 462,210
Deferred rent	382,502	421,316
Total Liabilities	855,582	883,526
Net Assets		
Without donor restrictions	42,999,335	34,370,956
With donor restrictions	16,927,764	23,411,877
Total Net Assets	59,927,099	57,782,833
	<u>\$ 60,782,681</u>	\$58,666,359

Statement of Activities Year Ended December 31, 2021 (with summarized totals for the year ended December 31, 2020)

	Without	With Donor	2021	2020
	Donor			2020 Total
	Restrictions	Restrictions	Total	Total
SUPPORT AND REVENUE				
Foundation grants	\$ 8,130,311	\$ 13,895,874	\$ 22,026,185	\$ 25,567,751
Individual contributions	12,440,727	927,328	13,368,055	11,249,073
Investment return	454,519	-	454,519	122,015
Program service fees	-	-	-	40,000
Other income	320,096	-	320,096	391,330
Net assets released from restrictions	21,307,315	(21,307,315)	-	-
Total Support and Revenue	42,652,968	(6,484,113)	36,168,855	37,370,169
EXPENSES				
Program	28,569,725	-	28,569,725	25,750,624
Management and general	3,866,904	-	3,866,904	2,904,513
Fundraising	1,587,960	-	1,587,960	1,436,519
Total Expenses	34,024,589	-	34,024,589	30,091,656
Change in Net Assets	8,628,379	(6,484,113)	2,144,266	7,278,513
NET ASSETS				
Beginning of year	34,370,956	23,411,877	57,782,833	50,504,320
End of year	\$ 42,999,335	<u>\$ 16,927,764</u>	<u>\$ 59,927,099</u>	<u>\$ 57,782,833</u>

Statement of Functional Expenses Year Ended December 31, 2021 (with summarized totals for the year ended December 31, 2020)

	Program	Management and General	Fundraising	2021 Total	2020 Total
	Flogram			TOLAI	TOLAI
Staffing	\$ 22,813,799	\$ 2,996,001	\$ 1,046,410	\$ 26,856,210	\$ 22,874,147
Professional development	47,343	59,633	732	107,708	107,169
Occupancy	1,220,703	126,716	63,174	1,410,593	1,276,604
Insurance	360,814	96,121	17,278	474,213	388,632
Freelance and consulting fees	404,567	21,365	14,661	440,593	701,436
Accounting fees	-	65,702	-	65,702	63,650
Legal fees, net of reimbursement	59,423	9,019	13,236	81,678	73,965
Recruitment	3,877	143,640	1,000	148,517	27,439
Travel	450,494	21,049	3,790	475,333	387,796
Website development and design	609,123	71,662	35,831	716,616	562,121
Video/social media	127,437	14,992	7,496	149,925	187,869
Advertising	-	62,025	-	62,025	36,408
Software and tech support	289,350	40,709	92,788	422,847	355,132
New product development	-	-	-	-	30,518
Public records copies and					
subscriptions	281,963	-	-	281,963	339,338
Telecommunications	229,845	24,426	8,350	262,621	243,008
Repairs and maintenance	54,778	7,146	3,211	65,135	54,268
Printing and postage	12,401	821	88,451	101,673	117,454
Meeting expense	66,568	14,074	514	81,156	18,058
Supplies	30,742	3,046	619	34,407	24,887
Equipment lease	11,901	1,400	2,347	15,648	15,239
Regrants/partner payments	1,271,274	-	-	1,271,274	1,663,078
Depreciation	223,123	34,404	4,971	262,498	329,604
Unrelated business income tax expense	-	43,000	-	43,000	6,900
Other taxes	76	51	-	127	-
Credit card and bank fees	124	9,902	183,101	193,127	206,936
	\$ 28,569,725	\$ 3,866,904	\$ 1,587,960	\$ 34,024,589	\$ 30,091,656

See notes to financial statements

Statement of Cash Flows Year Ended December 31, 2021 (with comparative amounts for the year ended December 31, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,144,266	\$ 7,278,513
Adjustments to reconcile change in net assets		
to net cash from operating activities		
Change in present value discount	(46,311)	(125,753)
Depreciation	262,498	329,604
Loss on disposal of assets	-	1,892
Deferred rent	(38,814)	(73,029)
Donated stock	(734,794)	(306,075)
Realized and unrealized loss on investments	(293,394)	24,189
Changes in operating assets and liabilities		
Contributions receivable	3,809,420	1,760,559
Prepaid expenses and other assets	28,386	(197,997)
Accounts payable and accrued expenses	10,870	208,066
Net Cash from Operating Activities	5,142,127	8,899,969
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(223,686)	(187,609)
Purchase of investments	(7,226,054)	(30,708,864)
Proceeds from sale of investments	834,956	27,920,167
Net Cash from Investing Activities	(6,614,784)	(2,976,306)
Net Change in Cash and Cash Equivalents	(1,472,657)	5,923,663
Net Change in Cash and Cash Equivalents	(1,472,037)	5,925,005
CASH AND CASH EQUIVALENTS		
Beginning of year	13,343,390	7,419,727
End of year	<u>\$ 11,870,733</u>	<u>\$ 13,343,390</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrelated business income taxes paid	\$ 43,000	\$ 6,900

See notes to financial statements

Notes to Financial Statements December 31, 2021

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.

Notes to Financial Statements December 31, 2021

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 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, 2021 and 2020.

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, advertising revenue and honorariums and prizes among others and are recognized as the services or goods are provided to the customers.

Advertising Costs

The Organization expenses the costs of advertising as incurred.

Deferred Rent

The Organization has entered into operating lease agreements, which contain provisions for future rent increases. The total amount of rental payments due over the lease terms is being charged to rent expense on the straight-line method over the term of the leases. The difference between rent expense recorded and the amount paid is reflected as deferred rent, in the accompanying statement of financial position.

Notes to Financial Statements December 31, 2021

2. Summary of Significant Accounting Policies (continued)

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.

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 2018.

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 2020, 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 5, 2022.

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 temporary cash investments and is overseen by the board. Contributions receivable are from limited sources, subjecting the Organization to a concentration of credit risk.

Notes to Financial Statements December 31, 2021

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 .15% and 5%. Management considers all amounts to be fully collectible and based on the Organization's strong collection experience, no allowance for doubtful accounts has been provided.

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

	2021	2020
Due within one year	\$ 9,109,384	\$ 9,327,471
Due within two to four years	2,500,000	6,091,333
Discount to present value	(22,083)	(68,394)
	\$11,587,301	<u>\$ 15,350,410</u>

5. Investments

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

Description	2021	2020
Mutual Funds		
Short-term corporate bond	\$ 14,961,514	\$-
Large blend	17,478,644	-
Equity securities	18,811	14,866
Total Investments at Fair Value	32,458,969	14,866
Temporary cash investments, at cost	3,609,760	28,634,577
Total Investments	\$ 36,068,729	\$28,649,443

As of December 31, 2021 and 2020 all of the Organization's investments at fair value were level 1 investments.

Notes to Financial Statements December 31, 2021

6. **Property and Equipment**

Property and equipment consist of the following at December 31:

	2021		2020
Office furniture and fixtures	\$ 237,126	5 \$	237,126
Website	113,404	4	88,673
Computers	949,629	9	783,726
Leasehold improvements	266,318	<u> </u>	266,318
	1,566,477	7	1,375,843
Accumulated depreciation	(1,120,18	5)	(890,739)
	\$ 446,292	<u>2</u>	485,104

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:

		20)21	
	Beginning	Contributions	Assets	Ending
Purpose/Restriction	Balance	Received	Released	Balance
Internship program underwriting	\$ 119,835	\$ 827,500	\$ (312,502)	\$ 634,833
Healthcare projects	320,544	755,433	(703,815)	372,162
Climate change	980,081	833	(659,926)	320,988
Investigating New York's public institutions	400,000	50,000	(220,833)	229,167
Immigration	90,000	-	(90,000)	-
COVID-19 Pandemic	992,502	500,000	(915,035)	577,467
American Politics and Democracy	-	431,667	(153,201)	278,466
Diversity initiatives	319,772	50,505	(129,699)	240,578
Institutional strengthening/expansion	11,176,572	6,436,264	(10,947,347)	6,665,489
Timing	9,012,571	5,771,000	(7,174,957)	7,608,614
	\$23,411,877	\$14,823,202	\$ (21,307,315)	\$16,927,764

Notes to Financial Statements December 31, 2021

8. Net Assets with Donor Restrictions (continued)

	2020			
Purpose/Restriction	Beginning Balance	Contributions Received	Assets Released	Ending Balance
Internship program underwriting	\$ 131,485	\$ 358,000	\$ (369,650)	\$ 119,835
Healthcare projects	296,585	752,723	(728,764)	320,544
Climate change	1,288,228	250,000	(558,147)	980,081
News applications	23,416	-	(23,416)	-
Investigating New York's public institutions	80,789	400,000	(80,789)	400,000
Immigration	-	90,000	-	90,000
COVID-19 Pandemic	-	1,061,475	(68,973)	992,502
American Politics "What Went Wrong"	1,157,561	230,912	(1,388,473)	-
Improving transparency of K-12 education	72,942	-	(72,942)	-
Diversity initiatives	54,037	363,138	(97,403)	319,772
Video journalism	25,275	-	(25,275)	-
Institutional strengthening/expansion	10,359,761	9,503,703	(8,686,892)	11,176,572
Timing	8,761,997	5,543,500	(5,292,926)	9,012,571
	\$22,252,076	\$18,553,451	\$ (17,393,650)	\$23,411,877

9. Concentration of Revenue and Contributions Receivable

Funding from a single donor amounted to 8% and 15% of total support and revenue in 2021 and 2020. Multi-year commitments from three donors amounted to 48% and 51% of the total contribution receivable balance at December 31, 2021 and 2020. On a cash basis, funding received from these same three donors in 2021 and 2020 amounted to 8% and 10% of total donation receipts for each year, respectively.

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 entered into new leases for office space in Atlanta, Georgia on April 22, 2021 expiring December 2026 and Phoenix, Arizona on April 28, 2021 expiring May 2023. The Organization also leases an office in Washington, DC that was renewed June 2021 and expires May 2023, an office in Chicago that expired December 2021, and was renewed January 2022 and expires June 2022, and an office in California that was renewed in December 2020 that expires in December 2023. Rent expense for all office space for 2021 and 2020 was \$1,410,593 and \$1,276,604. 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, 2021 and 2020 amounted to \$15,648 and \$15,239.

Notes to Financial Statements December 31, 2021

10. Commitments (continued)

Future minimum annual lease payments are as follows:

2022	\$ 1,491,318
2023	1,350,793
2024	1,265,819
2025	121,363
2026	61,453
	\$ 4,290,746

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 \$897,451 and \$770,650 for 2021 and 2020.

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 \$43,000 and \$6,900 in 2021 and 2020.

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:

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 11,870,733	\$ 13,343,390
Investments	36,068,729	28,649,443
Contributions receivable	11,587,301	15,350,410
Total financial assets	59,526,763	57,343,243
Less: Contractual or donor imposed restrictions amounts		
Letter of credit collateral	882,540	882,540
Contributions receivable - Due in future years	2,477,917	6,022,939
Restricted by donor with time or purpose restrictions	14,449,847	17,388,938
	17,810,304	24,294,417
Financial assets available to meet general expenditures		
over the next twelve months	<u>\$41,716,459</u>	\$33,048,826

Notes to Financial Statements December 31, 2021

13. 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.

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