FREEDOM OF THE PRESS FOUNDATION

FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

FREEDOM OF THE PRESS FOUNDATION

Contents
December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of
Freedom of the Press Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of Freedom of the Press Foundation (a California nonprofit public benefit corporation) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freedom of the Press Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co., P.C.

Westborough, Massachusetts
July 13, 2018

FREEDOM OF THE PRESS FOUNDATION

Statements of Financial Position
December 31, 2017 and 2016

Assets	**2017**	**2016**
Current Assets:		
Cash	$ 2,824,369	$ 1,365,195
Restricted cash	1,946,542	170,744
Pledges receivable	139,171	347,514
Accounts receivable	22,794	-
Total assets	$ 4,932,876	$ 1,883,453
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 219,609	$ 158,691
Net Assets:		
Unrestricted	1,889,310	1,083,112
Temporarily restricted	2,823,957	641,650
Total net assets	4,713,267	1,724,762
Total liabilities and net assets	$ 4,932,876	$ 1,883,453

The accompanying notes are an integral part of these statements.

FREEDOM OF THE PRESS FOUNDATION

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Revenue:						
Grants and contributions	$ 1,556,353	$ 4,241,320	$ 5,797,673	$ 1,290,529	$ 720,883	$ 2,011,412
Service income	151,335	-	151,335	19,341	-	19,341
Donated space and services	90,750	-	90,750	93,869	-	93,869
Net assets released from restrictions:						
Purpose	1,909,013	(1,909,013)	-	1,205,189	(1,205,189)	-
Time	150,000	(150,000)	-	-	-	-
Total operating revenue	3,857,451	2,182,307	6,039,758	2,608,928	(484,306)	2,124,622
Operating Expenses:						
Program	2,829,711	-	2,829,711	2,089,548	-	2,089,548
General and administrative	133,255	-	133,255	110,891	-	110,891
Development	88,287	-	88,287	50,329	-	50,329
Total operating expenses	3,051,253	-	3,051,253	2,250,768	-	2,250,768
Changes in net assets	806,198	2,182,307	2,988,505	358,160	(484,306)	(126,146)
Net Assets:						
Beginning of year	1,083,112	641,650	1,724,762	724,952	1,125,956	1,850,908
End of year	$ 1,889,310	$ 2,823,957	$ 4,713,267	$ 1,083,112	$ 641,650	$ 1,724,762

FREEDOM OF THE PRESS FOUNDATION

Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Changes in net assets	$ 2,988,505	$ (126,146)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
Pledges receivable	208,343	(233,504)
Accounts receivable	(22,794)	-
Accounts payable and accrued expenses	60,918	96,051
Net cash provided by (used in) operating activities	3,234,972	(263,599)
Cash Flows from Investing Activities:		
(Additions to) withdrawals from restricted cash	(1,775,798)	763,480
Net Change in Cash	1,459,174	499,881
Cash:		
Beginning of year	1,365,195	865,314
End of year	$ 2,824,369	$ 1,365,195

Statements of Functional Expenses
For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Program	General and Adminis-trative	Develop-ment	Total	Program	General and Adminis-trative	Develop-ment	Total
Operating Expenses:								
Grants	$ 1,468,401	$ -	$ -	$ 1,468,401	$ 1,198,681	$ -	$ -	$ 1,198,681
Personnel and related	987,251	66,016	69,232	1,122,499	677,503	31,419	38,913	747,835
Professional and consulting fees	203,856	58,541	11,666	274,063	136,682	77,753	6,391	220,826
Travel and related	48,248	3,996	7,389	59,633	16,355	233	5,025	21,613
Rent	57,500	-	-	57,500	30,000	-	-	30,000
Website and access fees	42,392	2,301	-	44,693	13,248	1,361	-	14,609
Fees and subscriptions	11,097	-	-	11,097	11,906	60	-	11,966
Office supplies	5,846	2,401	-	8,247	4,891	65	-	4,956
Miscellaneous	5,120	-	-	5,120	282	-	-	282
Total operating expenses	$ 2,829,711	$ 133,255	$ 88,287	$ 3,051,253	$ 2,089,548	$ 110,891	$ 50,329	$ 2,250,768

1. OPERATIONS AND NONPROFIT STATUS

Freedom of the Press Foundation (the Organization) is a California nonprofit public benefit corporation formed in 2012. The Organization supports and defends public interest journalism in the 21st century. Through the use of digital security, internet advocacy, and crowdfunding, the Organization protects journalists and whistleblowers worldwide.

The Organization also developed the SecureDrop whistleblower submission system, currently in use by over sixty major news organizations across the globe, and runs the U.S. Press Freedom Tracker project, which documents and tabulates press freedom violations in the United States. In addition, the Organization provides journalists with digital security training, builds other digital tools to keep reporters and activists safe, and advocates for strong press freedom rights locally, nationally, and internationally.

The Organization is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization is also exempt from state income taxes. Contributions made to the Organization are deductible by donors within the requirements of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. generally accepted accounting principles (U.S. GAAP) in these notes are to the FASB Accounting Standards Codification (ASC).

Restricted Cash

Restricted cash consists of amounts restricted by the donor for use by the fiscal sponsor (see Note 4) and is excluded from cash for the purpose of the statements of cash flows.

Pledges Receivable and Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded based on management's analysis of specific pledges that may be uncollectible, if any. As of December 31, 2017 and 2016, there are no allowances for doubtful accounts.

Revenue Recognition

Grants and contributions are recorded as revenue when received or unconditionally committed. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets if they are received or unconditionally committed with donor-imposed stipulations that limit the use of the asset. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed.

Service income is recorded over the period covered by the service contract or as services are provided.

Grants

Grant expense is recorded at the time awarded by the Organization.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Organization has grouped its net assets into the following categories:

Unrestricted - Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Organization.

Temporarily Restricted - The Organization receives grants and contributions, which are designated by donors for specific purposes or specific time periods. These contributions are recorded as temporarily restricted net assets until they are expended for their designated purposes or the time restriction has been met.

Temporarily restricted net assets are restricted as follows as of December 31:

	2017	**2016**
Open Whisper Systems (open source software)	$ 1,827,302	$ 67,203
Program grants	627,856	417,842
Secure Drop program	368,799	6,605
Operations (time restricted)	-	150,000
	$ 2,823,957	$ 641,650

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Donated Space and Services

The Organization receives donated professional services in support of its programs. The donated services are estimated based upon values determined by donor. The value of the pro bono services for the years ended December 31, 2017 and 2016, was $42,750 and $63,869, respectively, which is included in donated space and services in the accompanying statements of activities and changes in net assets and in professional and consulting fees in the accompanying statements of functional expenses for the years then ended.

The Organization receives various donated space in support of its programs. The value of the donated spaces are estimated by management based upon the donor's projected value. The value of the donated spaces for the years ended December 31, 2017 and 2016, was $48,000 and $30,000, respectively, which is included in donated space and services in the accompanying statement of activities and changes in net assets and rent in the accompanying statement of functional expenses for the years then ended.

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to *Fair Value Measurements* for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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.

Subsequent Events

Subsequent events have been evaluated through July 13, 2018, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2017 and 2016. The Organization’s information returns are subject to examination by the Federal and state jurisdictions.

3. CONCENTRATIONS

Concentrations of Credit Risk

The Organization maintains its cash balances in a bank in California. The Federal Deposit Insurance Corporation (FDIC) insures balances up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash.

Concentrations of Revenue

One donor represents 50% of total operating revenue for the year ended December 31, 2017. Two donors represent 35% of total operating revenue for the year ended December 31, 2016. Three donors represent 65% of pledges receivable as of December 31, 2017. One donor represents 58% of pledges receivable as of December 31, 2016.

4. FISCAL SPONSOR

The Organization entered into a Fiscal Sponsorship Agreement (the Agreement) in June 2015, with a limited liability company (the LLC), to carry out a project for which the Organization has raised restricted funding. The Organization is responsible for raising funds, disbursing funds, and overseeing the project. The LLC will carry out the program under the discretion of the Organization. The Organization held $1,946,542 and $170,744 of funds raised but not yet disbursed at December 31, 2017 and 2016, respectively, which are shown as restricted cash in the accompanying statements of financial position.

5. RETIREMENT PLAN

Effective January 1, 2017, the Organization established a 401(k) Profit Sharing Plan (the Plan) covering all eligible employees. Employees who are twenty-one years or older and are scheduled to work 1,000 hours during the plan year are deemed eligible. Each year, participants may elect to contribute up to 100% of their annual pretax compensation to the Plan up to the maximum allowed by the IRC. The Organization may make discretionary matching contributions and/or discretionary profit sharing contributions, not to exceed 100% of total employee compensation, and up to a fixed-dollar amount as defined in the Plan agreement. For the year ended December 31, 2017, the Organization made matching contributions of $4,876, which is included in personnel and related in the accompanying 2017 statement of functional expenses. The Organization did not make a profit sharing contribution for the year ended December 31, 2017.

6. FACILITY LEASE

Beginning in fiscal year 2017, the Organization leased office spaces as a tenant-at-will. For the year ended December 31, 2017, the Organization paid $9,500 under the agreement, which is included in rent expense in the accompanying 2017 statement of functional expenses.