FREEDOM OF THE PRESS FOUNDATION

FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

FREEDOM OF THE PRESS FOUNDATION

Contents
December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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
May 22, 2019

FREEDOM OF THE PRESS FOUNDATION

Statements of Financial Position
December 31, 2018 and 2017

Assets	**2018**	**2017**
Current Assets:		
Cash	$ 3,085,882	$ 2,824,369
Restricted cash	1,024,438	1,946,542
Pledges receivable	481,440	139,171
Accounts receivable	30,692	22,794
Total assets	$ 4,622,452	$ 4,932,876
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 115,756	$ 219,609
Net Assets:		
Without donor restrictions	2,830,500	1,889,310
With donor restrictions	1,676,196	2,823,957
Total net assets	4,506,696	4,713,267
Total liabilities and net assets	$ 4,622,452	$ 4,932,876

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, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
Grants and contributions	$ 2,311,137	$ 538,162	$ 2,849,299	$ 1,556,353	$ 4,241,320	$ 5,797,673
Service income	157,314	-	157,314	151,335	-	151,335
Donated space and services	76,661	-	76,661	90,750	-	90,750
Net assets released from restrictions:						
Purpose	1,685,923	(1,685,923)	-	1,909,013	(1,909,013)	-
Time	-	-	-	150,000	(150,000)	-
Total operating revenue	4,231,035	(1,147,761)	3,083,274	3,857,451	2,182,307	6,039,758
Operating Expenses:						
Program	2,896,301	-	2,896,301	2,829,711	-	2,829,711
General and administrative	203,119	-	203,119	133,255	-	133,255
Development	190,425	-	190,425	88,287	-	88,287
Total operating expenses	3,289,845	-	3,289,845	3,051,253	-	3,051,253
Changes in net assets	941,190	(1,147,761)	(206,571)	806,198	2,182,307	2,988,505
Net Assets:						
Beginning of year	1,889,310	2,823,957	4,713,267	1,083,112	641,650	1,724,762
End of year	$ 2,830,500	$ 1,676,196	$ 4,506,696	$ 1,889,310	$ 2,823,957	$ 4,713,267

The accompanying notes are an integral part of these statements.

FREEDOM OF THE PRESS FOUNDATION

Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Changes in net assets	$ (206,571)	$ 2,988,505
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Withdrawals from (additions to) restricted cash	922,104	(1,775,798)
Pledges receivable	(342,269)	208,343
Accounts receivable	(7,898)	(22,794)
Accounts payable and accrued expenses	(103,853)	60,918
Net Change in Cash	261,513	1,459,174
Cash:		
Beginning of year	2,824,369	1,365,195
End of year	$ 3,085,882	$ 2,824,369

FREEDOM OF THE PRESS FOUNDATION

Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018				2017			
	Program	General and Adminis-trative	Develop-ment	Total	Program	General and Adminis-trative	Develop-ment	Total
Operating Expenses:								
Personnel and related	$ 1,280,052	$ 127,675	$ 156,387	$ 1,564,114	$ 987,251	$ 66,016	$ 69,232	$ 1,122,499
Grants	936,380	-	-	936,380	1,468,401	-	-	1,468,401
Professional and consulting fees	462,331	59,511	28,332	550,174	203,856	58,541	11,666	274,063
Travel and related	81,790	4,274	5,706	91,770	48,248	3,996	7,389	59,633
Rent	76,426	-	-	76,426	57,500	-	-	57,500
Website and access fees	35,722	2,399	-	38,121	42,392	2,301	-	44,693
Office supplies	11,714	9,260	-	20,974	5,846	2,401	-	8,247
Fees and subscriptions	9,636	-	-	9,636	11,097	-	-	11,097
Miscellaneous	2,250	-	-	2,250	5,120	-	-	5,120
Total operating expenses	$ 2,896,301	$ 203,119	$ 190,425	$ 3,289,845	$ 2,829,711	$ 133,255	$ 88,287	$ 3,051,253

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 has 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).

Adoption of Accounting Standard

During 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This ASU modified the current guidance over several criteria, of which the following affected the Organization's financial statements:

- Net assets are segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets.
- Qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the statement of financial position date.
- A more detailed explanation of the methods used to allocate costs among program and supporting (general and administrative and fundraising) functions has been included in the notes to the financial statements.

The Organization has applied a modified retrospective adoption of the above standard and, as a result, is not presenting a liquidity disclosure for the year ended December 31, 2017. The adoption of the ASU did not impact the Organization's net asset balance, changes in net assets, or cash flows for the year ended December 31, 2017.

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 and cash equivalents for the purpose of the statements of cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017, there are no allowances for doubtful accounts.

Revenue Recognition

Grants and contributions are recorded as revenue when received or unconditionally committed. Grants and contributions with donor restrictions are recorded as donor restricted revenues and net assets with donor restrictions if they are received or unconditionally committed with donor-imposed stipulations that limit the use of the asset. Transfers are made to net assets without donor restrictions 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.

Net Assets

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

Without Donor Restrictions - Those net resources that bear no external restrictions and are generally available for use by the Organization.

With Donor Restrictions - The Organization receives grants and contributions that are designated by donors for specific purposes or specific time periods. These contributions are recorded as net assets with donor restrictions until they are expended for their designated purpose or over their designated time period.

Net assets with donor restrictions are restricted as follows as of December 31:

	2018	2017
Open Whisper Systems (open source software)	$ 1,024,438	$ 1,827,302
Program grants	366,419	627,856
SecureDrop program	160,339	368,799
Operations (time restricted)	125,000	-
	$ 1,676,196	$ 2,823,957

Expense Allocation

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation (Continued)

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are personnel and related, which are allocated on the basis of estimates of time and effort; professional fees, which are allocated on the basis of hours incurred on projects worked; and website and access fees, which are allocated based on usage studies conducted annually.

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, 2018 and 2017, was $28,661 and $42,750, 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 donated space in support of its programs. The value of the donated space is estimated by management based upon the donor's projected value. The value of the donated space for the years ended December 31, 2018 and 2017, was $48,000, which is included in donated space and services in the accompanying statements of activities and changes in net assets and grants and rent in the accompanying statements 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 May 22, 2019, 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, 2018 and 2017. The Organization's information and tax returns are subject to examination by the Federal and state jurisdictions.

3. CONCENTRATIONS

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.

Three donors represent 37% of total operating revenue for the year ended December 31, 2018. One donor represents 50% of total operating revenue for the year ended December 31, 2017. Four donors represent 88% of pledges receivable as of December 31, 2018. Three donors represent 65% of pledges receivable as of December 31, 2017.

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 $1,024,438 and $1,946,542 of funds raised but not yet disbursed at December 31, 2018 and 2017, 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 years ended December 31, 2018 and 2017, the Organization made matching contributions of $48,286 and $4,879, respectively, which are included in personnel and related in the accompanying statements of functional expenses. The Organization did not make a profit sharing contribution for the years ended December 31, 2018 and 2017.

6. FACILITY LEASE

The Organization occupies office space as a tenant-at-will. Monthly payments due ranged from $500 to $3,000. For the years ended December 31, 2018 and 2017, the Organization paid $28,426 and $9,500, respectively, which are included in rent expense in the accompanying statements of functional expenses.

7. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available as of December 31, 2018, for use by the Organization within one year from the statement of financial position date are as follows:

Cash	$ 3,085,882
Pledges and accounts receivable	512,132
Total financial assets	3,598,014
Donor-imposed restricted net assets:	
Cash	(1,301,196)
Pledges receivable, excluding 2019 time restricted pledge of $125,000	(250,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,046,818

The Organization is substantially supported by grants and contributions without donor restrictions; however, there are restricted funds that are received throughout the year. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As of December 31, 2018, the Organization has financial assets without donor restrictions equal to eleven months of operating expenses (excluding fiscal sponsorship expenses – see Note 4).