CAL MATTERS

Financial Statements

For the year ended December 31, 2019

With Independent Auditors' Report Thereon

(A California Not-for-Profit Corporation)

Contents

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
CalMatters

We have audited the accompanying financial statements of CalMatters (a California nonprofit organization) which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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.

Auditor's 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 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 CalMatters as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have previously audited CalMatters' December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

1st Draft

Regalia & Associates

Danville, California
July 15, 2020

Statement of Financial Position
December 31, 2019 and 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	**$ 1,229,603**	$ 973,938
Investments	**1,065,153**	35,079
Accounts, grants and pledges receivable	**1,728,444**	1,507,353
Prepaid expenses and other current assets	**36,737**	126,047
Deposits	**29,200**	30,200
Total current assets	**4,089,137**	2,672,617
Noncurrent assets:		
Account, grants and pledges receivable, net	**1,011,990**	1,037,512
Total noncurrent assets	**1,011,990**	1,037,512
Total assets	**$ 5,101,127**	$ 3,710,129

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities:		
Accounts payable	**$ 32,087**	$ 65,466
Accrued payroll liabilities	**134,670**	116,233
Unearned revenue	**186,356**	48,593
Total current liabilities	**353,113**	230,292
Noncurrent liabilities:		
Accrued pension liability	**60,422**	35,023
Total noncurrent liabilities	**60,422**	35,023
Total liabilities	**413,535**	265,315
Net assets:		
Without donor restrictions	**957,947**	509,716
With donor restrictions	**3,729,645**	2,935,098
Total net assets	**4,687,592**	3,444,814
	$ 5,101,127	$ 3,710,129

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019
(with Summarized Financial Information for the Year Ended December 31, 2018)

Changes in net assets:	Net Assets: Without Donor Restrictions	Net Assets: With Donor Restrictions	2019 Total	2018 Total
Revenue and support:				
Earned Revenue:				
Fees for service	$ 116,604	$ -	**$ 116,604**	$ 83,624
Total earned revenue	116,604	-	**116,604**	83,624
Contributed support:				
Contributions	2,592,242	3,051,000	**5,643,242**	3,473,160
Investment income	12,953	-	**12,953**	2,116
Realized gain (loss) on investments	2,869	-	**2,869**	(181)
Unrealized loss on investments	(2,221)	-	**(2,221)**	(93)
Other revenue	11,849	-	**11,849**	6,807
Net assets released from restrictions	2,264,264	(2,264,264)	**-**	-
Change in discount - multi-year receivables	-	7,811	**7,811**	(50,821)
Total contributed support	4,881,956	794,547	**5,676,503**	3,430,988
Total revenue and support	4,998,560	794,547	**5,793,107**	3,514,612
Expenses:				
Programs	3,263,220	-	**3,263,220**	2,147,791
General and administrative	423,884	-	**423,884**	332,624
Fundraising	863,225	-	**863,225**	437,671
Total expenses	4,550,329	-	**4,550,329**	2,918,086
Increase in net assets	448,231	794,547	**1,242,778**	596,526
Net assets before prior period adjustment	509,716	2,935,098	**3,444,814**	795,003
Change in accounting principle	-	-	**-**	2,053,285
Net assets at beginning of year (as adjusted)	509,716	2,935,098	**3,444,814**	2,848,288
Net assets at end of year	$ 957,947	$ 3,729,645	**$ 4,687,592**	$ 3,444,814

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Operating activities:		
Increase in net assets before prior period adjustment	**$ 1,242,778**	$ 596,526
Adjustments to reconcile to cash used for operating activities:		
Change in discount on multi year grants and pledges	**(7,811)**	50,821
Changes in:		
Accounts, grants, and pledges receivable	**(187,758)**	(1,915,686)
Prepaid expenses and other current assets	**89,310**	(120,162)
Deposits	**1,000**	(20,200)
Accounts payable	**(33,379)**	33,459
Accrued payroll liabilities	**18,437**	30,329
Unearned revenue	**137,763**	48,593
Cash provided by (used for) operating activities	**1,260,340**	(1,296,320)
Investing activities:		
Acquisition of investments	**(1,030,074)**	(35,079)
Cash used for investing activities	**(1,030,074)**	(35,079)
Financing activities:		
Adjustments related to accrued pension liability	**25,399**	17,022
Cash provided by financing activities	**25,399**	17,022
Net increase (decrease) in cash and cash equivalents before change in accounting principle	**255,665**	(1,314,377)
Prior period adjustment: change in accounting principle	**-**	2,053,285
Cash and cash equivalents at beginning of year	**973,938**	235,030
Cash and cash equivalents at end of year	**$ 1,229,603**	$ 973,938
Additional cash flow information:		
Interest paid	**$ -**	$ -
State registration taxes paid	**$ 150**	$ 150

Statement of Functional Expenses
For the Year Ended December 31, 2019
(with Summarized Financial Information for the Year Ended December 31, 2018)

	Programs	Management and General	Fund-raising	2019 Total	2018 Total
Bank charges	$ -	$ 12,567	$ -	**$ 12,567**	$ 2,661
Fundraising and marketing	-	18,002	234,983	**252,985**	127,013
Insurance	14,063	18,034	2,893	**34,990**	20,302
Management	-	9,338	-	**9,338**	9,689
Office expenses	30,761	96,088	6,939	**133,788**	93,624
Personnel and benefits	2,380,799	172,708	553,536	**3,107,043**	2,134,315
Professional services	-	23,633	-	**23,633**	52,415
Rent	160,694	11,661	37,374	**209,729**	82,250
Reporting and production	448,197	-	-	**448,197**	359,272
Technology	228,706	61,853	27,500	**318,059**	36,545
Total Expenses	$ 3,263,220	$ 423,884	$ 863,225	**$ 4,550,329**	$ 2,918,086

Notes to Financial Statements
December 31, 2019

1. Organization

CalMatters is a nonprofit nonpartisan public interest journalism venture focused on California state politics and policy based in Sacramento, California.

The organization launched in July 2015. Its stories have been published in more than 90 newspapers statewide and broadcast on radio in Los Angeles, the Bay Area, Sacramento, and elsewhere. The organization has more than 130 media partners. It is the largest media organization covering California state government and policy issues as measured by staff size or audience reach (broadcast, print, online).

CalMatters endeavors to:

- Increase public awareness about state policy issues
- Create more transparency of the policymaking process
- Shine new scrutiny on the campaign trail
- Experiment with new distribution, revenue, and media collaboration models

2. Summary of Significant Accounting Policies

Basis of Presentation – The financial statements of CalMatters have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of Operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to CalMatters' ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents – CalMatters' cash and cash equivalents consists of cash on deposit in checking and savings accounts. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

Reclassifications – Certain reclassifications have been made to the 2018 financial statements in order to conform to the presentation used in 2019.

Concentrations of Credit Risk – Financial instruments that potentially subject CalMatters to concentrations of credit risk consist principally of cash and cash equivalents and deposits. CalMatters maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. CalMatters manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

To date, CalMatters has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of CalMatters' mission.

(continued)

2. Summary of Significant Accounting Policies *(continued)*

Receivables and Credit Policies – CalMatters determined that no allowance for doubtful uncollectible accounts receivable is needed based on historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the policy of the organization to periodically assess receivables to determine proper carrying value.

Accounts, Grants, and Pledges Receivable – CalMatters records receivables that are expected to be collected within one year at net realizable value. When material, receivables expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

In subsequent years, amortization of the discounts (when applicable) will be included in contribution revenue in the statement of activities. The allowance for uncollectible receivables is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectible.

Investments - CalMatters follows the provisions of *ASC 958.320, Investments – Debt and Equity Securities of Not-for-Profit Entities* and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that CalMatters could realize in a current market exchange.

The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of December 31, 2019 and 2018. Economic conditions can vary significantly throughout the year, impacting the carrying value of investments. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented, especially in light of the impact on financial markets as a result of COVID-19.

Comparative Financial Information - The accompanying financial statements include certain prior-year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2018, from which the summarized information was derived.

In-Kind Contributions - In-kind contributions are reflected at the fair value of the contribution received in accordance with *ASC 958.605.30-11*. The contributions of services, equipment, and other materials are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

(continued)

2. Summary of Significant Accounting Policies (*continued*)

Functional Allocation of Expenses - The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (personnel and benefits, rent, and insurance) have been allocated based on time and effort using CalMatters' payroll allocations. Other expenses (reporting and production, professional services, technology, and other direct costs) have been allocated in accordance with the specific services received from vendors.

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). CalMatters groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1
Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2
Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3
Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

(continued)

2. Summary of Significant Accounting Policies (*continued*)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

<u>Net Assets without Donor Restrictions</u>
Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment, and it has not opted to do so as of December 31, 2019.

<u>Net Assets with Donor Restrictions</u>
Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition - Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an “exchange transaction”) is recognized when earned and therefore measured as services are provided.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

(continued)

2. Summary of Significant Accounting Policies *(continued)*

Property, Equipment and Leasehold Improvements – CalMatters' policy is to record acquisitions of property and equipment at cost or, if donated, at fair market value on the date of donation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets.

Costs of maintenance and repairs are expensed currently. CalMatters reviews the carrying values of all assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated economic utility and/or future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. CalMatters has determined that no long-lived assets were impaired during the year ended December 31, 2019.

Income Taxes – CalMatters is organized as California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. CalMatters is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. We have determined that the entity is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

CalMatters has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that CalMatters continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

Recent and Relevant Accounting Pronouncements – The following pronouncements were recently applied to the financial statements:

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. CalMatters has adjusted the presentation of these statements accordingly.

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The FASB issued this update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Accordingly, the Organization has incorporated these clarifying standards within the audited financial statements.

Notes to Financial Statements
December 31, 2019

3. Cash and Cash Equivalents

Cash and cash equivalents include all funds in banks (checking and savings accounts) at the time of purchase that have a maturity date of 90 days or less. The components of cash and cash equivalents are as follows at December 31:

	2019	2018
Checking accounts	**$ 304,665**	$ 391,956
Money market and savings accounts	**924,938**	581,982
Total cash and cash equivalents	**$ 1,229,603**	$ 973,938

Money market and savings accounts earn interest at rates ranging from 0.45% to 0.47% per annum at December 31, 2019.

4. Investments

Investments consist of the following at December 31:

	2019	2018
Money market deposits	**$ 400,123**	$ -
Mutual funds principally in equities	**60,423**	35,079
Certificates of deposit	**604,607**	-
Total investments	**$ 1,065,153**	$ 35,079

Composition of investments is summarized as follows at December 31, 2019:

	Fair Value	Cost
Money market deposits	$ 400,123	$ 400,123
Mutual funds principally in equities	60,423	54,304
Certificates of deposit	604,607	604,607
Total investments	$ 1,065,153	$ 1,059,034

Composition of investment income is summarized as follows for the years ended December 31:

	2019	2018
Dividends	**$ 565**	$ 105
Interest	**12,388**	2,011
Net realized gains (losses)	**2,869**	(181)
Net unrealized gains (losses)	**(2,221)**	(93)
Total investment income (net)	**$ 13,601**	$ 1,842

During the years ended December 31, 2019 and 2018, earnings on investments were reinvested. Investments are recorded at cost when purchased. Investments received by gift are recorded at fair value upon notification that a donation has been made (generally at or near the date of contribution). Money market accounts include funds held in highly liquid investments with maturity dates of three months or less bearing interest at variable market savings rates. At December 31, 2019, certificates of deposit of had maturity dates of six to twelve months. There were no certificates of deposit at December 31, 2018.

4. Investments *(continued)*

Restricted Investments: CalMatters established a 457(b) Eligible Deferred Compensation Plan to attract and retain personnel by providing deferred compensation. Currently, only one employee is covered under the Plan as of December 31, 2019. The balance in the 457(b) Plan investment account amounted to $60,422 and $35,023 at December 31, 2019 and 2018, respectively.

Finance Committee
CalMatters has a Finance Committee which has the responsibility for establishing the CalMatters' return objectives (generally lower rates of return associated with more stable and safer investments) and to define the risk parameters (generally low risk securities such as money market mutual funds and certificates of deposit). The Finance Committee routinely oversees investment performances and reviews cash flows necessary to sustain the CalMatters' operating activities.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate of return objectives, CalMatters relies on a total return strategy in which investment returns are achieved through current yield (interest and dividends). CalMatters invests to achieve its long-term return objectives within prudent risk constraints.

5. Accounts, Grants, and Pledges Receivable and Related Party Transactions

Accounts, grants, and pledges receivable are estimated to be collected as follows at December 31:

	2019	2018
Year ending December 31, 2019	**$ -**	$ 1,507,353
Year ending December 31, 2020	**1,728,444**	923,333
Year ending December 31, 2021	**1,055,000**	165,000
Total	**2,783,444**	2,595,686
Less: amounts due in current year	**(1,728,444)**	(1,507,353)
Less: discount applied to multi-year receivables	**(43,010)**	(50,821)
Total accounts, grants, and pledges receivable – noncurrent	**$ 1,011,990**	$ 1,037,512

Accounts, grants, and pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 4.25%. The discount related to the present value calculation will be accreted back into income over the estimated collection period of the promises to give. The change in discount for multi-year receivables amounted to $7,811 and ($50,821) for the years ended December 31, 2019 and 2018, respectively, and is reflected as a change impacting net assets with donor restrictions on the statement of activities and changes in net assets.

CalMatters determines the allowance for uncollectable accounts, grants, and pledges receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts, grants, and pledges receivable are written off when deemed uncollectable. There was no allowance for doubtful accounts at December 31, 2019 and 2018. There were no write-offs and thus no bad debt expense for the years ended December 31, 2019 and 2018.

5. Accounts, Grants, and Pledges Receivable and Related Party Transactions *(continued)*

At December 31, 2019, nine donors accounted for 89% total accounts, grants, and pledges receivable. Related party receivables amounted to 8% of total accounts, grants, and pledges receivable at December 31, 2019. Related party donations comprised 6% of total revenue and support for the year ended December 31, 2019.

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets of $36,737 and $126,047 at December 31, 2019 and 2018, respectively, primarily consist of prepaid rent, insurance, and freelance services which will be used by CalMatters in the subsequent fiscal year.

7. Fair Value Measurements

Composition of assets utilizing fair value measurements at December 31, 2019 is as follows:

	Total	Level 1	Level 2	Level 3
Investments	$ 1,065,153	$ 460,546	$ 604,607	$ -
Accounts, grants, and pledges receivable (current)	1,728,444		1,728,444	
Accounts, grants, and pledges receivable (noncurrent)	1,011,990	-	-	1,011,990
Totals	$ 3,805,587	$ 460,546	$ 2,333,051	$ 1,011,990

Composition of assets utilizing fair value measurements at December 31, 2018 is as follows:

	Total	Level 1	Level 2	Level 3
Investments	$ 35,079	$ 35,079	$ -	$ -
Accounts, grants, and pledges receivable (current)	1,507,353	-	1,507,353	-
Accounts, grants, and pledges receivable (noncurrent)	1,037,512	-	-	1,037,512
Totals	$ 2,579,944	$ 35,079	$ 1,507,353	$ 1,037,512

Assets Classified as Level 3

The significant unobservable inputs used in the fair value measurement of Level 3 assets are based on calculations involving the net present value of the long-term portion of accounts, grants, and pledges receivable whereby anticipated future cash flow receipts are discounted to a net present value under an assumed rate of return (using a discount rate of 4.25% per annum as disclosed in Note 5 above)

8. Liquidity

CalMatters regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. CalMatters has various sources of liquidity at its disposal, including cash, certificates of deposit, mutual funds, and the future collection of receivables.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, CalMatters considers all expenditures related to its ongoing activities of providing nonpartisan journalism as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, CalMatters operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of CalMatters' cash and shows positive cash generated by operations for year ended December 31, 2019.

The following table shows the total financial assets held by CalMatters and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	2019	2018
Cash and cash equivalents	**$ 1,229,603**	$ 973,938
Investments	**1,065,153**	35,079
Accounts, grants, and pledges receivable	**2,740,434**	2,544,865
Less: amounts not available to be used within one year:		
Restricted cash	**(60,422)**	(35,023)
Net assets with donor restrictions for programs	**(1,311,996)**	(1,174,709)
Financial assets available to meet general expenditures over the next twelve months	**$ 3,662,772**	$ 2,344,150

CalMatters receives a substantial amount of support by way of restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, CalMatters 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 CalMatters' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

9. Unearned Revenue

Unearned revenue of $186,356 and $48,593 at December 31, 2019 and 2018, respectively, consists of fees for services received in advance of work to be performed in a future year.

10. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of *ASC 710.25, Compensated Absences. Under ASC 710.25,* CalMatters is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statements of financial position based on hourly rates in effect at the end of the year. Accrued vacation liabilities amounted to $128,418 and $109,933 at December 31, 2019 and 2018, respectively. Total accrued payroll liabilities (which include the accrued vacation) amounted to $134,670 and $116,233 at December 31, 2019 and 2018, respectively.

11. Line of Credit

On August 8, 2017, CalMatters obtained a $100,000 line of credit pursuant to an agreement with Beneficial State Bank. There was no outstanding balance was at December 31, 2019 and 2018. When utilized, amounts outstanding under the line of credit bear interest at the variable rate of 1.5% per annum above the U.S. Prime Interest Rate as reported in the Wall Street Journal. The Wall Street Journal prime interest rate amounted to 3.25% and 5.5% at December 31, 2019 and 2018, respectively. No funds were borrowed on the line of credit during the year ended December 31, 2018. On August 10, 2018, CalMatters increased its line of credit to $150,000 and extended the term through July 17, 2019. CalMatters did not renew the line of credit when it expired on July 17, 2019.

12. Net Assets

<u>Net Assets without Donor Restrictions</u>
Net assets without donor restrictions of $957,947 and $509,716 at December 31, 2019 and 2018, respectively, represent the cumulative retained surpluses since the organization's inception.

<u>Net Assets with Donor Restrictions – Time and Purpose</u>
Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	2019	2018
Passage of time	**$ 876,092**	$ 2,208,425
Subject to expenditure for specified purpose	**2,896,563**	777,494
Discount on multi-year pledges	**(43,010)**	(50,821)
	$ 3,729,645	$ 2,935,098

During the years ended December 31, 2019 and 2018, CalMatters received $3,051,000 and $2,729,667, respectively, in donations with restrictions. Donations released from restrictions amounted to $2,264,264 and $676,382 for the years ended December 31, 2019 and 2018, respectively. The change in the discount on multi-year pledges amounted to $7,811 and ($50,821) for the years ended December 31, 2019 and 2018, respectively.

13. Leases

Effective August 25, 2017, CalMatters became obligated under a month-to-month lease agreement for its administrative offices. Payments under the lease were subject to monthly modifications and increased from $5,500 per month at the beginning of the year to $7,200 per month by the end of the year. A refundable $1,000 security deposit was held by the landlord. CalMatters vacated this office space on January 15, 2019.

On January 15, 2019, CalMatters entered into a one year lease agreement for corporate office space in Sacramento, California. CalMatters prepaid the annual rent of $121,200 and tendered a security deposit in the amount of $20,200 prior to December 31, 2018. Upon conclusion of the one-year term, CalMatters continued occupation under the lease on a month-to-month basis from January 16, 2020 through March 31, 2020.

On April 1, 2020, CalMatters entered into a 67-month lease agreement for corporate office space in Sacramento, California. The lease requires base rent of $14,051 after four months of rent abatement with annual increases of approximately 2.0% each April 1st. CalMatters has the option to renew the lease for a period of five years at prevailing market rates. CalMatters is also responsible for its proportionate share of building, maintenance, and operating expenses which includes insurance, taxes, and utilities.

Future minimum lease payments are summarized as follows:

Year Ending	
December 31, 2020	$ 105,293
December 31, 2021	225,493
December 31, 2022	248,274
December 31, 2023	253,367
December 31, 2024	258,460
Thereafter	219,415
	$1,310,301

Rent expense amounted to $209,729 and $82,250 for the years ended December 31, 2019 and 2018, respectively.

14. Employee Benefit Plans

CalMatters has a defined contribution pension plan (the Plan) covering all employees. CalMatters does not contribute to the Plan or match amounts contributed by participants to the Plan.

CalMatters established a 457(b) Eligible Deferred Compensation Plan to attract and retain personnel by providing deferred compensation. Only one employee is covered under the Plan as of December 31, 2019 and 2018. CalMatters contributed $18,188 and $17,023 to the 457(b) Plan during the years ended December 31, 2019 and 2018, respectively.

15. Commitments and Contingencies

In the normal course of business there are various outstanding commitments and contingent liabilities, such as commitments to enter into contracts and future funding agreements, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate CalMatters to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond CalMatters' control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, including executive officers of the organization, and (d) Financial risks associated with funds on deposit in accounts at financial institutions. Certain of the grants and contracts (including current and prior costs) are subject to adjustment upon review and final acceptance by the granting agency. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements.

16. Prior Period Adjustment: Restatement of Balances

During the year ended December 31, 2018, CalMatters changed its method of accounting from the modified cash basis (a basis of accounting other than US GAAP) to the accrual basis. The new method of accounting was adopted to comply with the California Nonprofit Integrity Act of 2004 which requires the preparation of financial statements in accordance with US GAAP. Accordingly, in compliance with *FASB ASC 250 – Accounting Changes and Error Corrections (previously FASB Statement No. 154)*, CalMatters converted all of its accounts to comply with the accrual basis method of accounting. This resulted in a cumulative correction totaling $2,053,285 which has been reflected as an adjustment to the beginning net assets (principally net assets with donor restrictions) on the statement of activities and changes in net assets.

17. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, CalMatters has evaluated subsequent events through July 15, 2020, the date the financial statements were available to be issued.

As disclosed in Note13, CalMatters entered into a 67-month lease agreement on April 1, 2020 for corporate office space in Sacramento, California. The lease requires base rent of $14,051 after four months of rent abatement with annual increases of approximately 2.0% each April 1st. CalMatters has the option to renew the lease for a period of five years at prevailing market rates. CalMatters is also responsible for its proportionate share of building, maintenance, and operating expenses which includes insurance, taxes, and utilities.

(continued)

17. Subsequent Events *(continued)*

Subsequent to December 31, 2019 (the end of CalMatters' fiscal year), an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The novel coronavirus threat (which became widespread during February and March 2020) has (a) significantly impacted financial markets, (b) potentially diminished revenue streams, and (3) impacted private enterprises with which CalMatters conducts business. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. These financial statements do not contain any adjustments related to economic losses which may or may not be realized by CalMatters as a result of these events.

During April 2020, CalMatters applied for and received $535,141 in a forgivable loan under the Small Business Administration Paycheck Protection Program ("PPP"). Congress established the PPP to provide relief to small businesses during the coronavirus pandemic as part of the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. This legislation authorized the United States Treasury Department to use the SBA's 7(a) small business lending program to fund loans of up to $10 million per borrower that qualifying businesses could spend to cover payroll, mortgage interest, rent, and utilities.

The organization expended the funds (and continues to utilize the proceeds) for payroll, operating overhead, and other eligible costs in accordance with its agreement with the SBA. Management fully anticipates that it will satisfy the PPP's eligibility and loan forgiveness criteria, enabling the funds to be reclassified from a liability to contributed income.

Based on the guidance in *FASB ASC 405-20-40-1*, the proceeds from the loan would remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the debtor has been "legally released" or (2) the debtor pays off the loan to the creditor. Once the loan is, in part or wholly, forgiven and legal release is received, the organization is instructed to reduce the liability by the amount forgiven and record the forgiven loan as income.

In the opinion of management, there are no other subsequent events which are required to be disclosed.