

PROTEUS FUND, INC.

Independent Auditors' Report
And Financial Statements

December 31, 2019



ASSURANCE | ADVISORY | TAX | TECHNOLOGY



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INDEPENDENT AUDITORS' REPORT

To the Officers and Directors of
Proteus Fund, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Proteus Fund, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, cash flows and functional expense for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. This standard requires 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Proteus Fund, Inc. as of December 31, 2019, 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.

Emphasis of Matter

As discussed in Note 11, the December 31, 2018 financial statements of Proteus Fund, Inc. have been restated to reclassify certain investments and investment income as net assets with donor restrictions. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Whittlesey PC". The signature is written in black ink and is positioned above the typed name and date.

Holyoke, Massachusetts
December 4, 2020

PROTEUS FUND, INC.
Statement of Financial Position
December 31, 2019

ASSETS

Current Assets

| | |
|-------------------------------------|-------------------|
| Cash and cash equivalents | \$ 19,291,721 |
| Grants receivable - within one year | 7,392,259 |
| Prepaid expenses and other assets | 137,560 |
| Total Current Assets | <u>26,821,540</u> |

| | |
|-----------------------------|---------------|
| Property and equipment, net | <u>27,137</u> |
|-----------------------------|---------------|

Other Assets

| | |
|------------------------------------|------------------|
| Grants receivable - after one year | 1,194,833 |
| Investments | 2,844,775 |
| Total Other Assets | <u>4,039,608</u> |

| | |
|--------------|-----------------------------|
| Total Assets | <u><u>\$ 30,888,285</u></u> |
|--------------|-----------------------------|

LIABILITIES AND NET ASSETS

Current Liabilities

| | |
|-------------------------------------|------------------|
| Accounts payable | \$ 1,038,635 |
| Accrued expenses | 787,470 |
| Total Current and Total Liabilities | <u>1,826,105</u> |

Net Assets

| | |
|----------------------------|------------------|
| Without donor restrictions | |
| Operating | 1,118,433 |
| Board designated | 742,510 |
| | <u>1,860,943</u> |

| | |
|-------------------------|-------------------|
| With donor restrictions | <u>27,201,237</u> |
| Total Net Assets | <u>29,062,180</u> |

| | |
|----------------------------------|-----------------------------|
| Total Liabilities and Net Assets | <u><u>\$ 30,888,285</u></u> |
|----------------------------------|-----------------------------|

The accompanying notes are an integral part of the financial statements

PROTEUS FUND, INC.
Statement of Activities
For the Year Ended December 31, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|-------------------------------|-------------------|
| Support and Revenue | | | |
| Grants and contributions | \$ - | \$ 28,498,708 | \$ 28,498,708 |
| Administrative income | - | 947,638 | 947,638 |
| Other income | - | 249,832 | 249,832 |
| Net assets released from restrictions | 29,547,176 | (29,547,176) | - |
| Total Support and Revenue | 29,547,176 | 149,002 | 29,696,178 |
| Expenses | | | |
| Program | 25,560,320 | - | 25,560,320 |
| General and administration | 3,211,897 | - | 3,211,897 |
| Fundraising | 1,180,505 | - | 1,180,505 |
| Total Expenses | 29,952,722 | - | 29,952,722 |
| Non-Operating Revenue | | | |
| Interest and dividends, net | 316,646 | 22,473 | 339,119 |
| Net realized and unrealized gains | 8,012 | 429,234 | 437,246 |
| Total Non-Operating Revenue | 324,658 | 451,707 | 776,365 |
| Change in Net Assets | (80,888) | 600,709 | 519,821 |
| Net assets - beginning of year (as restated) | 1,941,831 | 26,600,528 | 28,542,359 |
| Net Assets End of Year | \$ 1,860,943 | \$ 27,201,237 | \$ 29,062,180 |

The accompanying notes are an integral part of the financial statements

PROTEUS FUND, INC.
Statement of Cash Flows
For the Year Ended December 31, 2019

Cash Flows from Operating Activities

| | |
|--|------------------|
| Change in Net Assets | \$ 519,821 |
| Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By Operating Activities | |
| Depreciation | 16,870 |
| Net realized and unrealized gains | (437,246) |
| Change in assets and liabilities: | |
| Grants receivable | 750,365 |
| Prepaid expenses and other assets | (54,047) |
| Accounts payable | 569,268 |
| Accrued expenses | (182,013) |
| Net Cash Provided By Operating Activities | <u>1,183,018</u> |

Cash Flows from Investing Activities

| | |
|---|------------------|
| Proceeds from sales of investments | 207,461 |
| Purchases of investments | <u>(190,586)</u> |
| Net Cash Provided By Investing Activities | <u>16,875</u> |

Net Increase in Cash

| | |
|---|-----------------------------|
| | 1,199,893 |
| Cash and cash equivalents - beginning of year | <u>18,091,828</u> |
| Cash and cash equivalents - End of Year | <u><u>\$ 19,291,721</u></u> |

The accompanying notes are an integral part of the financial statements

PROTEUS FUND, INC.
Statement of Functional Expense
For the Year Ended December 31, 2019

| | Program | General and Administrative | Fundraising | Total |
|------------------------------|----------------------|-------------------------------|---------------------|----------------------|
| Personnel | | | | |
| Salaries | \$ 3,383,639 | \$ 1,160,035 | \$ 689,538 | \$ 5,233,212 |
| Payroll taxes and benefits | 972,896 | 334,090 | 200,311 | 1,507,297 |
| Total personnel | 4,356,535 | 1,494,125 | 889,849 | 6,740,509 |
| Grants | 17,171,478 | - | - | 17,171,478 |
| Other | | | | |
| Consultants | 2,335,848 | 1,122,910 | 174,257 | 3,633,015 |
| Travel and conferences | 1,150,792 | 207,544 | 88,762 | 1,447,098 |
| Occupancy | 235,000 | 113,690 | 12,610 | 361,300 |
| Technology | 136,405 | 68,055 | 9,356 | 213,816 |
| Office expenses | 60,935 | 81,999 | 3,570 | 146,504 |
| Membership and subscriptions | 39,124 | 22,111 | - | 61,235 |
| Legal | 18,200 | 38,660 | - | 56,860 |
| Accounting | 27,668 | 22,712 | - | 50,380 |
| Postage and printing | 28,335 | 9,421 | 2,101 | 39,857 |
| Depreciation | - | 16,870 | - | 16,870 |
| Advertising and recruitment | - | 13,800 | - | 13,800 |
| Total other | 4,032,307 | 1,717,772 | 290,656 | 6,040,735 |
| Total expenses | <u>\$ 25,560,320</u> | <u>\$ 3,211,897</u> | <u>\$ 1,180,505</u> | <u>\$ 29,952,722</u> |

The accompanying notes are an integral part of the financial statements

PROTEUS FUND, INC.
Notes to the Financial Statements
December 31, 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Proteus Fund, Inc., (“The Fund”), is a full-service philanthropy organization that brings funders and movement leaders together to create the collaborative systems and strategies needed to create and protect enduring social change. With operational support and grantmaking expertise as a foundation, The Fund works together to analyze the issues, execute on unified strategies, and maximize the collective impact. The Fund was incorporated under the laws of the District of Columbia on May 16, 1994.

Basis of Accounting

The financial statements of The Fund are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The financial statements of The Fund have been presented in accordance with the recommendations of the *Financial Statements of Not-for-Profit Organizations* topic of the Financial Accounting Standards Board (FASB) Codification. Under this topic, The Fund reports information regarding its financial position and activities according to two classes of net assets:

- *Net Assets without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Board designated net assets represent reserves or special designations established by the Board of Directors for future program and operational needs.
- *Net Assets with Donor Restrictions* – Net assets with donor restrictions represent contributions that are restricted by the donor as to purpose or time of expenditures.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, The Fund considers all highly liquid accounts with an initial maturity of three months or less to be cash and cash equivalents, excluding those within the investment portfolio.

Allowance for Uncollectible Grants Receivable

An allowance for uncollectible grants receivable is recorded based on management’s analysis of specific donors and their estimate of amounts that may become uncollectible, if any. Grants are written off when they are determined to be uncollectible. No allowance was deemed necessary by management as of December 31, 2019.

Depreciation

Property and equipment with a cost of \$5,000 or more is capitalized. Maintenance and repair costs are expensed against resources as incurred. Donated assets are recorded at fair value on the date received. Depreciation is computed by the straight-line method over the following estimated useful lives:

| | |
|-------------------------|---------------|
| Furniture and equipment | 3 - 7 years |
| Leasehold improvements | 10 - 40 years |

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Inputs to the valuation methodology for the three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1* Unadjusted quoted prices in active markets for identical assets or liabilities. Market price is generally obtained from exchange or dealer markets.
- Level 2* Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers and brokers.
- Level 3* Unobservable inputs that are supported by little or no market activity as they trade infrequently or not at all and that are significant to the fair value of the assets or liabilities.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Revenue Recognition

All grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increases net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Conditional grants and contributions - that is, those with a measurable performance or other barrier and a right of return - are not recognized as revenue until the conditions on which they depend are substantially met.

Administrative income is recorded as services are provided. All other revenue is recorded when earned.

Functional Allocation of Expenses

The Fund allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program are charged directly to that program. With the exception of grants and allocated operating expenses, all expense categories consist of both direct expenses and allocated expenses. Allocated operating expenses and the allocated portion of personnel are based in management's estimate of the percentage of time and effort of other program staff and operations staff attributable to those functions.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Fund is a not for profit corporation (not a private foundation) and has been recognized as exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and accordingly does not record a provision for income taxes.

Subsequent Events

The Fund has evaluated events that have occurred subsequent to December 31, 2019 through December 4, 2020, the date these financial statements were available to be issued, and has determined that there were no material events requiring recognition or disclosure, except the following:

During May, 2020, the Fund received approval for a Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loan in the amount of \$2,063,864. Under the PPP, funds are forgivable if utilized for qualified expenditures according to the program criteria incurred over a period of eight to twenty-four weeks following the date of funding. In order to qualify for forgiveness, the funding must be spent on eligible payroll expenses, and up to 40% may be spent on other eligible expenditures, such as rent and utilities. As outlined by the SBA, any unforgiven balance must be repaid over two years at an annual interest rate of 1% with an initial deferment period of ten months from disbursement date of loan (interest will accrue). Details of eligible forgivable expenses are fluid, and final guidance has not been determined by the SBA.

In March, 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic. COVID-19 has caused significant disruption in the national and global economy. The Fund’s operating activities, liquidity, cash flows, have been and may continue to be adversely affected by this global pandemic. While the disruption is currently expected to be temporary, there is uncertainty related to the duration. Therefore, while The Fund expects this matter to negatively impact the operations, the related financial impact for the upcoming year cannot be reasonably estimated at this time.

Beginning in March, 2020, there has been significant volatility in the investment market. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such changes could materially affect investment securities balances.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following reflects The Fund's financial assets available for general expenditure within one year of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions. The Fund has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 2 – LIQUIDITY AND AVAILABILITY – (CONTINUED)

| | |
|--|---------------------|
| Financial asset at year end: | |
| Cash and cash equivalents | \$ 19,291,721 |
| Grants receivable | 8,587,092 |
| Investments | 2,844,775 |
| | <u>30,723,588</u> |
| Less amount not available to be used within one year: | |
| Net assets with board restrictions | (742,510) |
| Net assets with donor restrictions | (27,201,237) |
| | <u>(27,943,747)</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 2,779,841</u> |

The Fund has net assets with board restrictions of \$742,510 as of December 31, 2019, which are available to meet expenditures in the next twelve months upon approval for appropriation by the Board of Directors. These net assets are designated for future program and operational needs.

NOTE 3 – GRANTS RECEIVABLE

Grants receivable are as follows at December 31, 2019:

| | |
|-----------------------------|---------------------|
| Current grants receivable | \$ 7,392,259 |
| Long-term grants receivable | 1,194,833 |
| Total grants receivable | <u>\$ 8,587,092</u> |

The present value of long-term grants receivable is estimated by discounting future cash flows using a risk-free return of 1.76% at December 31, 2019.

Future collections of long-term grants receivable are as follows at December 31, 2019:

| | |
|-------------------|---------------------|
| December 31, 2020 | \$ 461,500 |
| December 31, 2021 | 625,000 |
| December 31, 2022 | 108,333 |
| | <u>\$ 1,194,833</u> |

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2019:

| | |
|-----------------------------------|------------------|
| Furniture and equipment | \$ 47,834 |
| Leasehold improvements | 32,217 |
| | <u>80,051</u> |
| Less: accumulated depreciation | 52,914 |
| Total property and equipment -net | <u>\$ 27,137</u> |

NOTE 5 – INVESTMENTS

The following table sets forth The Fund's investments at fair value as of December 31, 2019:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------|---------------------|-------------------|----------------|---------------------|
| Investments - | | | | |
| Money market | \$ 295,011 | \$ - | \$ - | \$ 295,011 |
| Domestic equities | 1,792,036 | - | - | 1,792,036 |
| Fixed income | - | 441,782 | - | 441,782 |
| Bonds | - | 288,186 | - | 288,186 |
| International equities | 27,760 | - | - | 27,760 |
| Total Investments | <u>\$ 2,114,807</u> | <u>\$ 729,968</u> | <u>\$ -</u> | <u>\$ 2,844,775</u> |

The following is a description of the valuation methodologies used for assets measured at fair value.

Money market fund - Valued at net asset value (NAV) of \$1.

Domestic equities and international equities - stated at fair value based on quoted market prices.

Fixed income and bonds - valued using pricing models maximizing the use of observable inputs for similar securities, including value yields currently available on comparable securities of issues with similar credit ratings.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent those assets that are received with donor stipulations that limit the use or the time of use of the contribution. Net assets with donor restrictions are purpose restricted at December 31, 2019 for the following:

| | |
|----------------------|----------------------|
| Fiscal sponsorships | \$ 14,705,039 |
| Donor collaborations | 5,527,647 |
| Donor advised funds | 6,968,551 |
| | <u>\$ 27,201,237</u> |

Net assets released from donor restrictions are as follows as of December 31, 2019:

Time and purpose restrictions:

| | |
|----------------------|----------------------|
| Fiscal sponsorships | \$ 10,843,388 |
| Donor collaborations | 9,788,131 |
| Donor advised funds | 8,915,657 |
| | <u>\$ 29,547,176</u> |

NOTE 7 – CONCENTRATIONS OF CREDIT RISK

The Fund maintains its cash balances in several financial institutions and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, The Fund's cash balances have exceeded these limits. The Fund has not experienced any losses in such accounts. The Fund's management believes that The Fund is not exposed to any significant credit risk related to these accounts.

Three donor contributions represented 51% of total operating revenue and 32% of grants receivable.

NOTE 8 – RELATED PARTY

The Fund, an exempt organization under IRC Section 501(c)(3), is related to Proteus Action League (PAL) through common management. As of December 31, 2019, certain Board members of The Fund are also Board members of PAL's Board. During the year, funds are transferred between the organizations for specific programmatic initiatives. The Fund granted \$669,225 to PAL during 2019. The Fund owed PAL \$198,055 at December 31, 2019 and is included in accrued expenses on the accompanying statement of financial position.

NOTE 9 – RETIREMENT PLAN

The Fund has adopted a defined contribution pension plan. All employees are eligible to participate. The Fund may contribute up to 15% of each employee's compensation for a calendar year. The amount of the contribution is at the discretion of the Board. The contribution for the year ended December 31, 2019 was \$264,998, and is included in payroll taxes and benefits in the accompanying Statement of Functional Expense.

NOTE 10 – LEASES

The Fund leases various space in Massachusetts, Washington D.C. and New York under operating lease agreements. The leases require monthly payments ranging from \$1,248 to \$7,309, and expire at various dates through August, 2021.

Future minimum lease payments under these agreements are as follows:

Years ending December 31:

| | | |
|------|----|----------------|
| 2020 | \$ | 175,045 |
| 2021 | | 79,303 |
| | \$ | <u>254,348</u> |

NOTE 11 – PRIOR PERIOD ADJUSTMENT

During 2019, The Fund identified investments and related investment earnings that were incorrectly recorded as net assets without donor restrictions. These investments are donor restricted for the purpose of their respective programs.

Net assets as of December 31, 2018, have been restated as follows:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|----------------------|
| Net assets, December 31, 2018, as previously stated | \$ 4,366,235 | \$ 24,176,124 | \$ 28,542,359 |
| Investments previously recorded as without donor restrictions | <u>(2,424,404)</u> | <u>2,424,404</u> | <u>-</u> |
| Net assets, December 31, 2018, as restated | <u>\$ 1,941,831</u> | <u>\$ 26,600,528</u> | <u>\$ 28,542,359</u> |

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