

Public Library of Science

Financial Statements

December 31, 2016
(With Comparative Totals for 2015)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Public Library of Science
San Francisco, California

We have audited the accompanying financial statements of Public Library of Science (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows 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 Public Library of Science as of December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited Public Library of Science's 2015 financial statements, and our report dated May 9, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Francisco, California

May 8, 2017

Public Library of Science
Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash	\$ 1,306,108	\$ 1,757,207
Program and accounts receivable, net	1,902,852	1,845,245
Prepaid expenses and other	<u>775,280</u>	<u>814,430</u>
Total current assets	<u>3,984,240</u>	<u>4,416,882</u>
Noncurrent assets		
Investments	20,274,603	22,745,299
Restricted investments	280,747	280,747
Loan receivable	57,497	55,943
Property and equipment, net	1,102,346	1,930,689
Software development costs	9,036,654	6,738,012
Deposits	<u>8,402</u>	<u>8,402</u>
Total noncurrent assets	<u>30,760,249</u>	<u>31,759,092</u>
Total assets	<u>\$ 34,744,489</u>	<u>\$ 36,175,974</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 2,272,516	\$ 2,072,026
Accrued liabilities	1,366,770	1,688,011
Institutional deposits	647,006	712,365
Deferred revenue	<u>513,967</u>	<u>563,879</u>
Total current liabilities	4,800,259	5,036,281
Deferred rent liability	<u>153,401</u>	<u>494,429</u>
Total liabilities	<u>4,953,660</u>	<u>5,530,710</u>
Net assets		
Unrestricted	29,790,829	30,523,505
Temporarily restricted	<u>-</u>	<u>121,759</u>
Total net assets	<u>29,790,829</u>	<u>30,645,264</u>
Total liabilities and net assets	<u>\$ 34,744,489</u>	<u>\$ 36,175,974</u>

The accompanying notes are an integral part of these financial statements.

Public Library of Science
Statement of Activities
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Revenues, gains (losses) and other support				
Public support revenue				
Grants	\$ 200	\$ -	\$ 200	\$ 206,768
Donations	7,015	-	7,015	1,678
Net assets released from restrictions	<u>121,759</u>	<u>(121,759)</u>	<u>-</u>	<u>-</u>
Total public support revenue	<u>128,974</u>	<u>(121,759)</u>	<u>7,215</u>	<u>208,446</u>
Program revenue				
Publication fees, gross	38,887,424	-	38,887,424	44,603,620
Less: support provided to authors	(2,114,628)	-	(2,114,628)	(2,328,440)
Less: discounts to institutional members	<u>-</u>	<u>-</u>	<u>-</u>	<u>(270)</u>
Publication fees, net	36,772,796	-	36,772,796	42,274,910
Subscriptions, reprints, and sponsorships	75,121	-	75,121	69,075
Advertising	<u>474,914</u>	<u>-</u>	<u>474,914</u>	<u>496,381</u>
Total program revenue	<u>37,322,831</u>	<u>-</u>	<u>37,322,831</u>	<u>42,840,366</u>
Unrealized and realized losses on investments	(10,265)	-	(10,265)	(1,259,223)
Other income, net	270,214	-	270,214	227,283
Interest and dividend income	<u>594,580</u>	<u>-</u>	<u>594,580</u>	<u>849,033</u>
Total	<u>854,529</u>	<u>-</u>	<u>854,529</u>	<u>(182,907)</u>
Total revenues, gains and other support	<u>38,306,334</u>	<u>(121,759)</u>	<u>38,184,575</u>	<u>42,865,905</u>
Functional expenses				
Publishing program services	30,353,347	-	30,353,347	34,239,264
Management and general	<u>8,685,663</u>	<u>-</u>	<u>8,685,663</u>	<u>8,610,356</u>
Total functional expenses	<u>39,039,010</u>	<u>-</u>	<u>39,039,010</u>	<u>42,849,620</u>
Change in net assets	(732,676)	(121,759)	(854,435)	16,285
Net assets, beginning of year	<u>30,523,505</u>	<u>121,759</u>	<u>30,645,264</u>	<u>30,628,979</u>
Net assets, end of year	<u>\$ 29,790,829</u>	<u>\$ -</u>	<u>\$ 29,790,829</u>	<u>\$ 30,645,264</u>

The accompanying notes are an integral part of these financial statements.

Public Library of Science
Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	<u>Publishing Program Services</u>	<u>Management and General</u>	<u>2016 Total</u>	<u>2015 Total</u>
Expenses				
Salaries and benefits	\$ 15,860,395	\$ 6,050,898	\$ 21,911,293	\$ 22,096,765
Production costs	9,174,467	-	9,174,467	11,265,093
Professional fees	3,242,507	524,035	3,766,542	6,498,327
Facility costs	2,340,293	517,853	2,858,146	2,929,775
Travel, meals, and promotion	636,394	343,904	980,298	1,021,307
Technology	626,435	425,053	1,051,488	940,425
Office and other	221,792	472,999	694,791	807,214
Training and recruitment	11,328	315,995	327,323	520,042
Marketing and advertising	<u>538,377</u>	<u>34,926</u>	<u>573,303</u>	<u>476,388</u>
Total expenses, including capitalized software costs	32,651,988	8,685,663	41,337,651	46,555,336
Less: capitalized software costs	<u>(2,298,641)</u>	<u>-</u>	<u>(2,298,641)</u>	<u>(3,705,716)</u>
	<u>\$ 30,353,347</u>	<u>\$ 8,685,663</u>	<u>\$ 39,039,010</u>	<u>\$ 42,849,620</u>

The accompanying notes are an integral part of these financial statements.

Public Library of Science
Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (854,435)	\$ 16,285
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	936,424	1,052,209
Unrealized and realized investment losses	10,265	1,259,223
Loss on disposal of fixed assets	31,875	2,908
Accrued interest	(1,554)	(1,507)
Deferred rent	(341,028)	(174,993)
Changes in operating assets and liabilities		
Program and accounts receivable	(57,607)	(512,639)
Prepaid expenses and other	39,150	(75,444)
Accounts payable	200,490	(107,079)
Accrued liabilities	(386,600)	149,437
Deferred revenue	(49,912)	(298,977)
Net cash provided by (used in) operating activities	(472,932)	1,309,423
Cash flows from investing activities		
Change in restricted investment	-	(82,007)
Purchase of investments	(22,355,539)	(14,014,714)
Sale of investments	24,815,970	17,109,926
Payments for software development costs	(2,298,641)	(3,705,716)
Purchase of property and equipment	(139,957)	(697,377)
Net cash provided by (used in) investing activities	21,833	(1,389,888)
Net decrease in cash and cash equivalents	(451,099)	(80,465)
Cash and cash equivalents, beginning of year	1,757,207	1,837,672
Cash and cash equivalents, end of year	\$ 1,306,108	\$ 1,757,207

The accompanying notes are an integral part of these financial statements.

Public Library of Science
Notes to Financial Statements
December 31, 2016

1. NATURE OF OPERATIONS

The Public Library of Science ("Organization" or "PLOS") was incorporated in the State of California, USA on July 11, 2001, as a California nonprofit public benefit corporation with company number C2354500, and is registered in the UK with company number FC031758 and branch number BR016828 with headquarters located in San Francisco. PLOS is a nonprofit science and medical publisher and open access advocacy organization. The mission of PLOS is to accelerate progress in science and medicine by leading a transformation in research communication. Everything that PLOS publishes is Open Access - freely available online for anyone to use. Sharing research encourages progress, from protecting the biodiversity of our planet to finding more effective treatments for diseases such as cancer.

The organization's core objectives are to:

- Provide ways to overcome unnecessary barriers to immediate availability, access, and use of research.
- Pursue a publishing strategy that optimizes the openness, quality, and integrity of the publication process.
- Develop innovative approaches to the assessment, organization, and reuse of ideas and data.

For more information, visit PLOS' website at www.plos.org.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of PLOS have been prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America specific to nonprofit organizations. Net assets and changes therein are classified as follows:

- *Permanently restricted net assets* - net assets subject to donor-imposed stipulations that they be maintained permanently by PLOS. PLOS had no permanently restricted net assets as of December 31, 2016.
- *Temporarily restricted net assets* - net assets subject to donor-imposed stipulations that may or will be met by actions of PLOS and/or the passage of time.
- *Unrestricted net assets* - net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. PLOS recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Expenses are reported as decreases in unrestricted net assets.

Public Library of Science
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Prior year summarized information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such summarized information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with PLOS' financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Revenue

PLOS receives revenue from a variety of sources. Advertising revenue is recognized when the advertising is published and publication fee revenue and publication fee support are recognized at the time of publication. Authors who are affiliated with a member institution are eligible for a discount on the publication fees which is recognized at the time of publication. Publication fee support and institutional member discounts are shown in publication fees, net in the statement of activities.

PLOS ended its institutional membership program in 2014 and any membership and discount activities reflected are related to residual commitments.

Publication fee support includes amounts extended to individual authors with financial hardships through the Publication Fee Assistance program and authors whose research are funded by eligible low- and middle-income countries through the PLOS Global Participation Initiative.

Public Library of Science
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received at fair value. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Donated property is recorded at the estimated fair value at the date of receipt. PLOS reports gifts of property as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, PLOS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents

PLOS considers all highly liquid investments which include domestic and foreign country deposits with remaining maturities of three months or less to be cash equivalents. PLOS maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits. PLOS has not experienced any losses in such accounts. PLOS attempts to limit its credit risk associated with cash equivalents and marketable securities by utilizing outside advisors and managers to place its investments with highly rated corporate and financial institutions.

Restricted investment

PLOS maintains two certificates of deposit with an original maturity in excess of three months with a bank that is pledged as security for two office leases. At December 31, 2016, the restricted investment amounted to \$280,747.

Contributions receivables

Contributions receivable represent unconditional promises from donors. There are no unconditional or conditional contributions receivable at December 31, 2016.

Program and accounts receivable

Program and accounts receivable consist of author fees, sponsorship, and advertising. Reserves for potential bad debts are maintained based on historical credit losses and management's expectations. The allowance for bad debts was \$157,875 as of December 31, 2016.

Public Library of Science
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loan receivable

PLOS has a 10 year loan receivable of \$50,000 from ORCID, Inc. This loan was entered into on November 10, 2011 and accrues interest at an annual rate of 2.75%. Outstanding accrued interest amounted to \$7,497 at December 31, 2016. The borrower's charitable purpose is to promote accuracy and integrity in attribution, and further collaboration in scientific research and scholarship. Specifically, the loan to ORCID is to solve the author/contributor name ambiguity problem in scholarly communications by creating a central registry of unique identifiers for individual researchers and an open and transparent linking mechanism between ORCID and other current author ID schemes.

Investments

PLOS' investments are stated at fair value based on quoted prices in active markets. Any related changes in realized or unrealized gain (loss) are reflected in changes in market value in the statement of activities.

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets' carrying value is adjusted to fair value.

Property and equipment

Property and equipment are valued at cost or, if donated, at fair market value on the date of donation. The cost of property and equipment greater than \$1,000 is capitalized and depreciated over the estimated useful life of each class of depreciable asset using the straight-line method or over the lesser of the lease term or useful life for leasehold improvements. PLOS incurs both internal and external development costs. PLOS capitalized external website development costs but has elected not to capitalize its internal website development costs.

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	Lesser of lease term or 1 to 5 years
Computer hardware and software	3 to 5 years
Furniture and fixtures	3 to 10 years
Website	5 years

Public Library of Science
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Software development costs

Software development costs from external vendors are capitalized and carried at cost if amounts exceed \$10,000 during the application development stage or implementation stage with future benefit that is greater than one year. These costs are currently associated with the development of a new manuscript management system called Aperta. Amortization of the software development costs begins when the software is completed and placed in service and is recognized using the straight-line method over the estimated useful life of 5 years. Total capitalized software costs to date amounted to \$9,036,654 as of December 31, 2016. There was no amortization of software development costs during 2016 as the developed software has not yet satisfied its condition of intended service.

PLOS reviews the software development costs for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized if the fair value of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value. There was no impairment of software development costs as of December 31, 2016.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, PLOS uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the PLOS. Unobservable inputs are inputs that reflect PLOS' assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of financial instruments:

- *Level 1* - investments include quoted prices (unadjusted) in active markets for identical investments that PLOS has the ability to access at the measurement date.
- *Level 2* - investments include other significant observable inputs (including quoted prices for similar instruments, interest rates, prepayment terms, credit risk, etc.).
- *Level 3* - investments include significant unobservable inputs (including PLOS' own assumptions in determining the fair value of instruments).

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Public Library of Science
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Institutional deposits

Institutional deposits represent unused prepaid publication fee deposits from Institutional Accounts. These are refundable amounts should the Institution terminate its arrangements with PLOS.

Deferred revenue

Deferred revenue consists of publication fees collected in advance of publication.

Deferred rent

PLOS leases building space in California and the U.K. under operating leases. The leases contain rental increases at various points throughout the lease terms. PLOS recognizes rent expense and rent income on a straight-line basis over the lease terms. Deferred rent is provided to reflect the differences between rent recorded in the financial statements and actual rent paid according to the lease terms.

Contributed services and costs

Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs 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. PLOS did not recognize any in-kind contributions during the year ended December 31, 2016.

Income taxes

PLOS 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 27301d 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 PLOS continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. PLOS may periodically receive unrelated business income (such as advertising income, etc.) requiring PLOS to file separate tax returns under federal and state statutes. PLOS also has certain transactions requiring the payment of value added taxes. Under such conditions, PLOS calculates and accrues the applicable taxes. PLOS is not subject to examination by taxing authorities, nor for any prior years.

PLOS assesses tax positions taken or expected to be taken against more-likely-than-not recognition threshold and measurement attributes for financial statement recognition. Based on an analysis prepared by PLOS, it was determined that PLOS believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Public Library of Science
Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses

Costs of providing PLOS' programs and other activities have been allocated between publishing program services and general and administration functional expenses based upon time and other cost studies performed by PLOS. Indirect costs were allocated to the programs and supporting services by a method that best measured the relative degree of benefit which was primarily based on headcount and individual's respective functions.

Subsequent events

PLOS has evaluated subsequent events through May 8, 2017, the date the financial statements were available to be issued, and, in the opinion of management, there are no subsequent events which need to be disclosed.

3. INVESTMENTS

Investments consist of the following:

	Cost	Fair Value
Fixed income	\$ 16,359,154	\$ 16,034,612
Domestic stock	2,405,669	2,605,973
International stock	1,582,776	1,634,018
	\$ 20,347,599	\$ 20,274,603

Unrealized and realized losses on investments for the year are as follows:

Net unrealized gain on investments	\$ 899,574
Net realized loss on sale of investments	(909,839)
	\$ (10,265)

4. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3	Fair Value
Fixed income	\$16,034,612	\$ -	\$ -	\$16,034,612
Domestic stocks	2,605,973	-	-	2,605,973
International stocks	1,634,018	-	-	1,634,018
	\$20,274,603	\$ -	\$ -	\$20,274,603

Public Library of Science
Notes to Financial Statements
December 31, 2016

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Computer hardware and software	\$ 2,318,588
Furniture and fixtures	793,168
Website	989,834
Leasehold improvements	<u>1,128,927</u>
	5,230,517
Accumulated depreciation	<u>(4,128,171)</u>
	<u><u>\$ 1,102,346</u></u>

Depreciation and amortization expense for the year ended December 31, 2016 amounted to \$936,424 and is included in facility costs in the statement of functional expenses.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets released from restriction during the year were as follows:

Development to show how Open Access literature can be reused and reorganized	<u><u>\$ 121,759</u></u>
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7. LEASE COMMITMENTS

PLOS has an operating lease agreement for its corporate office space with additional expansion space of 41,655 total square footage. This lease was secured during 2013 and expires on May 31, 2024. The office lease and the expansion space currently require a monthly rental payment of \$61,291 and \$87,988, respectively, with stipulated periodic rental increases. On November 1, 2016, PLOS entered into a new operating lease that begins June 1, 2017 and expires on May 31, 2024 for a reduced footprint of 21,153 square footage. PLOS accounts for operating leases which have stipulated rental adjustments under the straight-line method. PLOS is responsible for its proportionate share of building, maintenance and operating expenses which includes property taxes, insurance, and utilities. In connection with the leases, PLOS is required to collateralize the rental agreements with a deposit for performance under the rental contracts. The required deposit amounted to \$280,747 at December 31, 2016 and is reflected as restricted investment on the statement of financial position.

Public Library of Science
Notes to Financial Statements
December 31, 2016

7. LEASE COMMITMENTS (continued)

In a prior year, PLOS entered into an operating lease agreement for office space in the United Kingdom through July 18, 2020. The lease requires periodic rental payments which equate to £42,525 British Pounds Sterling annually (approximately U.S. \$52,442 as of December 31, 2016). The lease does not provide for any adjustments to the rent until after the fifth year, at which time a review of the terms and conditions will be made with a possible adjustment to the rent. PLOS is responsible for repairs and maintenance to keep the premises in "good repair and condition" and is also subject to value added tax on the periodic rent charges. During 2013 and 2014, PLOS entered into an operating lease agreement for expanded premises of its office space in the United Kingdom through July 18, 2020. The lease requires periodic rental payments which equate to £26,410 British Pounds Sterling annually for the 2013 and 2014 expansion leases (approximately U.S. \$32,569 as of December 31, 2016).

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,

2017	\$ 1,540,249
2018	1,343,169
2019	1,382,020
2020	1,396,963
2021	1,413,288
Thereafter	<u>3,587,338</u>
	<u><u>\$ 10,663,027</u></u>

Rent expense for the year ended December 31, 2016 amounted to \$1,731,788 and is included in facility costs in the statement of functional expenses.

8. RETIREMENT PLAN

For U.S.-based employees, PLOS offers the opportunity for participation in a salary reduction retirement plan qualified under Internal Revenue Code Section 401(k). The Public Library of Science 401(k) Profit Sharing Plan & Trust provides employees with the opportunity to defer up to 4% of their salary. PLOS matches 100% of employee contributions up to 3% of compensation, and then matches 50% of employee contributions on the next 2% of compensation. PLOS contributed \$497,265 to the plan for the year ended December 31, 2016.

For U.K.-based employees, PLOS offers a policy under Royal London whereby participants must contribute a minimum of 5% of their salary in order to qualify for a matching PLOS contribution (which does not exceed 5% of employee salary). PLOS contributed \$109,313 to the plan for the year ended December 31, 2016.

Public Library of Science
Notes to Financial Statements
December 31, 2016

9. RENTAL INCOME

During 2014, PLOS entered into a long-term operating sub-lease that expires on March 31, 2017. The lease currently requires a monthly payment of \$28,793 per month with stipulated annual rental increases.

The future scheduled minimum rental income under the lease terms is as follows:

Year ending December 31,

2017	\$ <u>86,378</u>
	\$ <u>86,378</u>

Rental income under the lease for the year ended December 31, 2016 amounted to \$339,112.

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Public Library of Science
San Francisco, California

We have audited the financial statements of the Public Library of Science as of and for the year ended December 31, 2016, and our report thereon dated May 8, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 19 - 20 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of reclassifying the fee waivers to expense, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Francisco, California

May 8, 2017

Public Library of Science
Statement of Activities with Publication Fee Support Presented as Program Expense
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Revenues, gains (losses) and other support				
Public support revenue				
Grants	\$ 200	\$ -	\$ 200	\$ 206,768
Donations	7,015	-	7,015	1,678
Net assets released from restrictions	<u>121,759</u>	<u>(121,759)</u>	<u>-</u>	<u>-</u>
Total public support revenue	<u>128,974</u>	<u>(121,759)</u>	<u>7,215</u>	<u>208,446</u>
Program revenue				
Publication fees, gross	38,887,424	-	38,887,424	44,603,620
Less: discounts to institutional members	<u>-</u>	<u>-</u>	<u>-</u>	<u>(270)</u>
Publication fees, net	38,887,424	-	38,887,424	44,603,350
Subscriptions, reprints, and sponsorships	75,121	-	75,121	69,075
Advertising	<u>474,914</u>	<u>-</u>	<u>474,914</u>	<u>496,381</u>
Total program revenue	<u>39,437,459</u>	<u>-</u>	<u>39,437,459</u>	<u>45,168,806</u>
Unrealized and realized losses on investments	(10,265)	-	(10,265)	(1,259,223)
Other income, net	270,214	-	270,214	227,283
Interest and dividend income	<u>594,580</u>	<u>-</u>	<u>594,580</u>	<u>849,033</u>
Total	<u>854,529</u>	<u>-</u>	<u>854,529</u>	<u>(182,907)</u>
Total revenues, gains and other support	<u>40,420,962</u>	<u>(121,759)</u>	<u>40,299,203</u>	<u>45,194,345</u>
Functional expenses				
Publishing program services	32,467,975	-	32,467,975	36,567,704
Management and general	<u>8,685,663</u>	<u>-</u>	<u>8,685,663</u>	<u>8,610,356</u>
Total functional expenses	<u>41,153,638</u>	<u>-</u>	<u>41,153,638</u>	<u>45,178,060</u>
Change in net assets	(732,676)	(121,759)	(854,435)	16,285
Net assets, beginning of year	<u>30,523,505</u>	<u>121,759</u>	<u>30,645,264</u>	<u>30,628,979</u>
Net assets, end of year	<u>\$ 29,790,829</u>	<u>\$ -</u>	<u>\$ 29,790,829</u>	<u>\$ 30,645,264</u>

Public Library of Science
Statement of Functional Expenses with Publication Fee Support Presented as Program Expense
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Publishing Program Services	Management and General	2016 Total	2015 Total
Expenses				
Salaries and benefits	\$ 15,860,395	\$ 6,050,898	\$ 21,911,293	\$ 22,096,765
Production costs	9,174,467	-	9,174,467	11,265,093
Professional fees	3,242,507	524,035	3,766,542	6,498,327
Publication fee support	2,114,628	-	2,114,628	2,328,440
Facility costs	2,340,293	517,853	2,858,146	2,929,775
Travel, meals, and promotion	636,394	343,904	980,298	1,021,307
Technology	626,435	425,053	1,051,488	940,425
Office and other	221,792	472,999	694,791	807,214
Training and recruitment	11,328	315,995	327,323	520,042
Marketing and advertising	<u>538,377</u>	<u>34,926</u>	<u>573,303</u>	<u>476,388</u>
Total expenses, including capitalized software costs	34,766,616	8,685,663	43,452,279	48,883,776
Less: capitalized software costs	<u>(2,298,641)</u>	<u>-</u>	<u>(2,298,641)</u>	<u>(3,705,716)</u>
	<u>\$ 32,467,975</u>	<u>\$ 8,685,663</u>	<u>\$ 41,153,638</u>	<u>\$ 45,178,060</u>